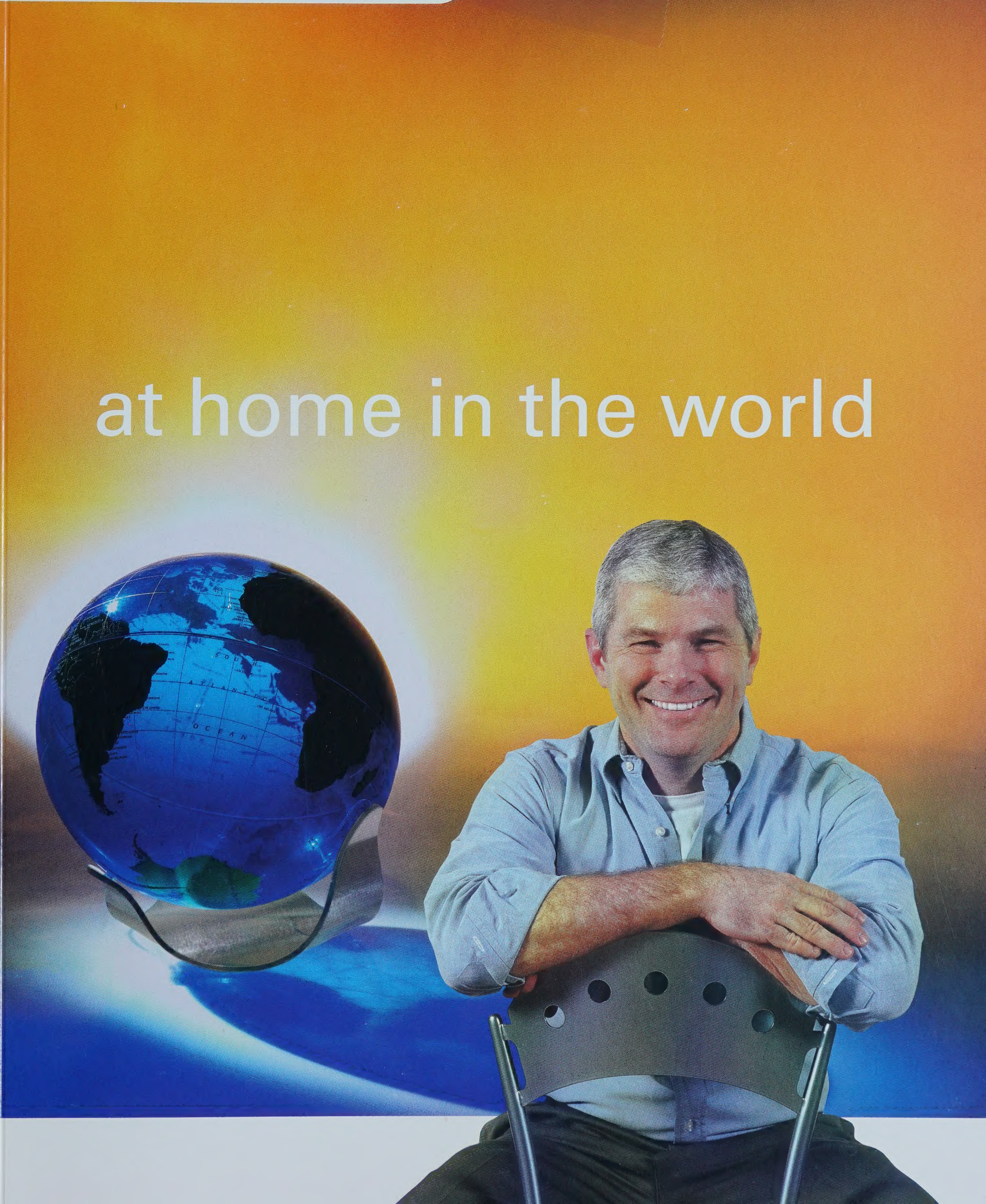
Dofasco Inc. 2002 Annual Report

at home in the world



profile Dofasco is Canada's most successful steel producer, serving customers throughout North America with high quality flat rolled and tubular steels and laser-welded blanks.

Dofasco's advanced facilities in Hamilton, Ontario, produce hot rolled, cold rolled, galvanized, Extragal™, Galvalume™, tinplate, chromium-coated and pre-painted flat rolled steels, as well as tubular products and Zyplex™, a proprietary laminate. Gallatin Steel, Dofasco's joint venture in Kentucky, produces hot rolled steels. Dofasco de Mexico and Dofasco Marion, wholly owned subsidiaries, produce tubular products in Monterrey, Mexico and Marion, Ohio, respectively. Powerlasers, also wholly owned, manufactures laser-welded automotive blanks and related components in Concord, Ontario and Pioneer, Ohio and has an Advanced Technology Centre in Kitchener, Ontario.

Willie Bernert of Market Development and Product Applications is one of many Dofasco people who have travelled the world to bring home "best-in-class" practices for implementation at Dofasco.

DOFASCO

Our product is steel. Our strength is people.

contents

Enduring **relationships,** developed over decades and strengthened with shared expectations and trust, are the foundation for Dofasco's success.

strong relationships → competitive advantage

How these relationships have led to success and made us "at home in the world" is the subject of this year's annual report. Dofasco is a major force in the North American steel industry and, increasingly, we are meeting the challenges of a global market. We have confidence in the future, because wherever we go and whatever we do, our relationships with customers, shareholders, employees, suppliers, and the communities where we live and work, will continue to be the key to our success. → **page 10**

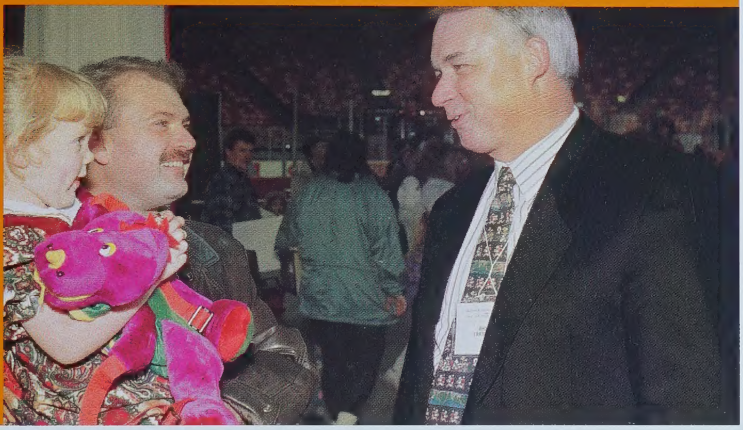
- Earned consolidated net income of $122.8 million or $1.63 per common share, reflecting record steel shipments and excellent operating performance across the organization. Excluding non-cash charges relating to Dofasco's investment in Quebec Cartier Mining Company, 2002 earnings were almost six times those of 2001.
- Maintained an excellent customer service record, ranking second among 27 major North American steel suppliers in an industry-recognized survey on overall customer satisfaction.
- Successfully started up Dofasco Marion Inc., an advanced automotive tubular manufacturing and processing facility in Marion, Ohio, reinforcing Dofasco's commitment to high value-added products for automotive customers throughout North America.
- Named one of the world's most sustainable companies by the Dow Jones Sustainability World Index for the fourth consecutive year. For the third year in a row, named the leader of the Basic Resources sector of the index.
- Announced a five-year, $700 million Finishing Division Improvement Program in Hamilton to enhance quality and product mix, reduce costs and improve customer service.
- Received a Healthy Workplace Award from the National Quality Institute in recognition of Dofasco's commitment to our people, including their health, safety and well-being.
- Supported our host communities through corporate donations that exceeded the Imagine program guideline of 1% of gross income, extensive volunteer contributions of time and expertise by our employees, and local purchases and other economic contributions.
- Met all commitments under our voluntary Environmental Management Agreement with federal and provincial authorities. Dofasco successfully completed its first ISO 14001 surveillance audit, received a GLOBE Award for Environmental Excellence and the Leadership Award from Canada's Climate Change Voluntary Challenge and Registry Inc. for the Primary Metals sector.

highlights

		2002	2001
Raw steel production and purchased semi-finished steel processed (thousands of net tons)		**5,470**	4,955
Steel shipments (thousands of net tons)		**4,827**	4,375
Sales [1]		**$ 3,583.7**	$ 2,962.5
Net Income [1]		**122.8**	40.3 [3]
Net income attributable to common shares [1,2]		**122.2**	39.7 [3]
Earnings per common share [2]	– basic	**1.63**	0.53 [3]
	– diluted	**1.62**	0.53 [3]
Dividends declared per common share		**1.08**	1.08
Capital expenditures [1]		**$ 139.0**	$ 203.9
Working capital [1]		**$ 1,042.3**	$ 880.6 [3]
Shareholders' equity [1]		**1,910.9**	1,867.9 [3]

[1] in millions [2] after preferred dividends [3] restated – see note 2b to the consolidated financial statements.

On May 2, 2003 John Mayberry, Chair of the Board and Chief Executive Officer of Dofasco Inc., will retire after 36 years with the company. He served as CEO since 1993.



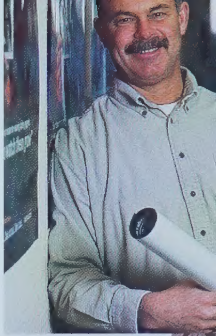
John,

During your ten years as CEO, you have consistently deflected any personal praise and credited Dofasco employees for the company's success. We are honoured by your belief in us and appreciate the many compliments you have paid us over the years. As you prepare for retirement, we feel it is important to recognize your significant contribution to Dofasco and acknowledge the legacy you leave behind.

Your leadership has been defined by a deep respect for people. You are a man of great character who lives according to the Golden Rule of treating others as you wish to be treated. You are also a man of great commitment, leading by example and inspiring those around you to greater success.

Under your leadership, our company and our people have prospered in many ways. On behalf of all Dofasco employees, we thank you, and wish you and your family a healthy, happy retirement.

Michael R. Doyle
ENGINEERING MAINTENANCE TECHNOLOGY



Wayne Dougherty
PROCESS EQUIPMENT ELECTRICAL MAINTENANCE

Peter Ciarroni
UTILITIES ELECTRICAL MAINTENANCE

Lisa Williamson
HEALTH AND SAFETY

Ivan Frkovic
KOBM ELECTRICAL MAINTENANCE

Don MacVicar
PURCHASING AND LOGISTICS

Dofasco's success is the result of strong, enduring relationships built on shared expectations and trust. These relationships enable us to work effectively with everyone who is part of our business – shareholders, customers, employees, home communities, joint venture partners and suppliers – to implement with excellence a strategy that has been developed and proven over time.

a strategy that works

As our business becomes more global, and as we extend our reach to new locations, new customers and new markets, these relationships and the values they represent precede us and pave the way for new success.

While "outstanding" might be an appropriate adjective to describe Dofasco's operating performance in 2002, two other words more accurately define not only the "what" but the "why" of the past year – growth and sustainability.

As the year 2002 began, Dofasco made some bold statements about the future. We had just come off an industry-battering year in 2001 that saw market demand and prices down substantially and a number of companies – some of them long-established steel names – pruning their operations. Many steel producers were closing high cost facilities, recapitalizing or seeking protection from bankruptcy. In this harsh market environment, Dofasco outperformed the industry and remained profitable. At the same time, we said that our focus on efficiency and quality, coupled with our employees' creativity and diligence in implementing our *Solutions in Steel* ™ growth strategy, would allow Dofasco to capitalize rapidly and effectively on improving market fundamentals.

That is in fact what happened in 2002. As market conditions improved more favourably and faster than expected, we were able to accelerate our business plan and widen the gap between our competitors and us.

The wider we cast our nets, the more important it is to be known for our values and to be judged by the strength of our relationships. This has become a defining **business advantage** for Dofasco, one that makes us "at home in the world."

Don Pether
PRESIDENT AND
CHIEF OPERATING OFFICER

John Mayberry
CHAIR OF THE BOARD AND
CHIEF EXECUTIVE OFFICER

Excellent financial performance

Record shipments, higher selling prices, strong operating results at the company's facilities in Hamilton and Kentucky, and remarkable efforts by people across the organization contributed to excellent results for Dofasco in 2002.

However, Dofasco's earnings were negatively affected by $113.6 million ($1.51 per share) of non-cash charges related to Quebec Cartier Mining Company (QCM).

Dofasco's consolidated net income for the year ended December 31, 2002 was $122.8 million, or $1.63 per common share after deducting preferred share dividends. Excluding the QCM charges, Dofasco earned $236.4 million or $3.14 per common share in 2002.

The QCM charges include a fixed asset writedown, the first step in a restructuring process that, when complete, will improve Dofasco's consolidated financial position and allow QCM to execute a new multi-year mining plan, sustaining their ability to operate competitively in an increasingly global iron ore market. Under the terms of the restructuring, Dofasco's ownership position in QCM and that of our partner, CAEMI of Brazil, will be significantly reduced.

Dofasco's consolidated net income in 2001, restated to reflect a change in the method used to account for relining blast furnaces, was $40.3 million, or $0.53 per share.

Consolidated sales in 2002 were $3.58 billion on shipments of 4.8 million tons, compared with $2.96 billion and 4.4 million tons respectively in 2001.

Dofasco's Steel Operations segment, which includes the company's Hamilton operations, reported income before income taxes of $313.8 million in 2002, compared to the $128.0 million pre-tax income reported in 2001. Shipments from Hamilton of 4.1 million tons were 11% higher than the 3.7 million tons shipped in 2001.

Gallatin Steel, Dofasco's joint venture steelmaking facility in Kentucky, also posted higher earnings as a result of record shipments and strong U.S. hot rolled selling prices. Dofasco's 50% share of Gallatin's pre-tax income increased to $46.6 million in 2002, compared with a loss of $29.5 million in 2001. Gallatin shipped 1.4 million tons in 2002 compared to 1.3 million tons in 2001.

QCM shipped 12.2 million tonnes of iron ore products in 2002, up from 9.8 million tonnes in 2001, but still below historical shipment levels. Dofasco's 50% share of QCM's loss before income taxes was $166.2 million, which includes the fixed asset writedown. In 2001, Dofasco's share of QCM's pre-tax loss was $24.8 million.

Long-term growth

Dofasco recognizes and invests in people, technology and facilities to ensure sustainable growth over time.

Since we began our *Solutions in Steel*™ strategy, Dofasco has increased shipments by nearly 55%, from 3.1 million tons in 1994 to 4.8 million in 2002. This was achieved through new facilities and capacity enhancements in Hamilton and Kentucky. At the same time, new and acquired operations in Canada, the U.S. and Mexico have enabled us to increase the proportion of high value-added products in our sales mix.

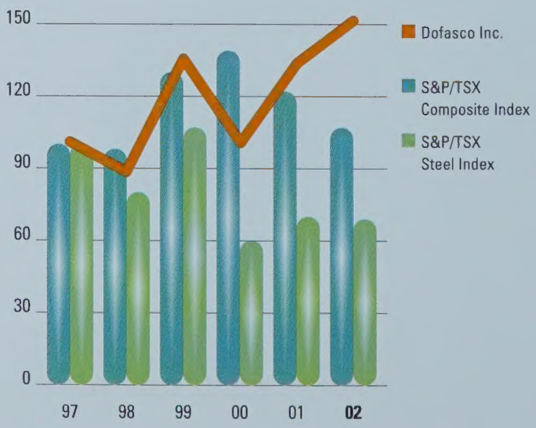
The investments we have made in expanding, modernizing and improving the efficiency of our facilities, and in extending their reach, have enabled Dofasco to evolve into a truly North American supplier. With this larger asset base, with major global customers and with technological partners around the world, Dofasco has rapidly moved towards a global presence.

In 2002, Dofasco acquired an advanced automotive tubular manufacturing and processing facility in Marion, Ohio. Dofasco Marion Inc. reinforces our commitment to high value-added products for automotive customers throughout North America.

Dofasco Marion has been integrated into our existing tube business which includes two mills in Hamilton and our wholly owned subsidiary in Monterrey, Mexico – Dofasco de Mexico. With the acquisition, Dofasco's annual tubular product manufacturing capacity is 550,000 tons.

Dofasco Marion joins a select list of acquisitions and other investments designed to increase the company's share of the market for value-added, steel-based products. These include Powerlasers, our laser-welded blanking subsidiary in Ontario and Ohio, and DoSol Galva,

CUMULATIVE TOTAL RETURN
ON $100 INVESTMENT
dollars



Our investments in expanding, modernizing and improving our facilities, and in extending their reach have enabled Dofasco to evolve into a truly North American supplier.

our Hamilton-based galvanizing joint venture. Zyplex™, our proprietary laminated steel product, is one of the best examples of internally developed innovation at Dofasco. Although in the early stages of commercialization, it passed $1 million in sales during 2002 and is gaining acceptance for truck trailer applications.

In 2002, we announced a five-year, $700 million program to upgrade our Hamilton Finishing Division to leading global standards. This will enhance quality and product mix, reduce costs and improve customer service. Environmental, health and safety considerations were integrated into the improvement program design. The $384 million first phase of the program will begin in 2003 and will be financed through internal cash flows.

Ultimately, as a result of these investments, all finishing operations and processes in Hamilton will be improved through the shutdown or improvement of existing facilities and the construction of new ones. Improvements in the Finishing Division will capitalize on the recent Hot Mill program that increased hot rolling capacity by 600,000 tons. These investments will position us further up the steel value chain, leading to greater profitability. Dofasco will continue to be one of North America's lowest cost steelmakers.

With capital investment, internal innovation and external networks that provide access to the newest technology, Dofasco's most valuable resource – its people – is equipped to ensure the company's growth. The confidence of the board in the sustainability of that growth is evidenced by its increasing the quarterly common share dividend by 11%, from 27 cents to 30 cents, effective the first quarter of 2003.

Environment

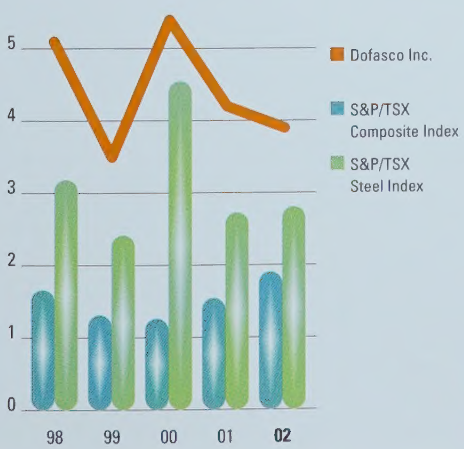
Dofasco's environmental performance in 2002 achieved success to match our financial performance. We once again met all commitments under our voluntary Environmental Management Agreement with federal and provincial authorities. Some specific achievements included significant improvement in reducing visible air emissions, progress in phasing out PCB transformers and reducing our energy consumption by 8.6% per ton.

While reducing emissions of greenhouse gases is an important societal goal, Canada's ratification of the Kyoto Protocol in late 2002 will present some formidable challenges, not only for Canadian industry, but for Canadian citizens as well. Dofasco will continue to do its part and build on the substantial progress we have made over the past several years.

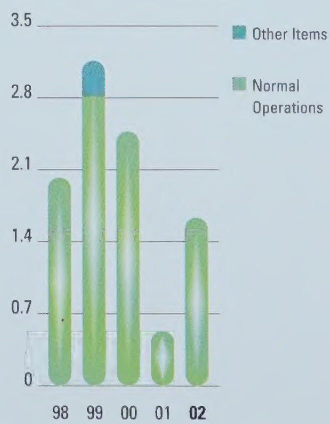
Improved energy consumption is a key enabler to reducing greenhouse gas emissions, the focus of the Kyoto Protocol. Since 1990, the base year for both our voluntary program and Kyoto, Dofasco has reduced energy consumption by almost 20%, leading to a 22% reduction in greenhouse gas emissions. We pursue opportunities for further improvement and continue to work with the federal government to establish an implementation program that recognizes our early action and reflects our significant accomplishments to date.

Individual Canadians will feel the impact of Kyoto in terms of energy use and lifestyle changes. In this area, Dofasco innovation could contribute as well. The lighter, more fuel-efficient cars we will need in the future might well be constructed from the steel products we are

DIVIDEND YIELD
% as at December 31



EARNINGS PER SHARE
$ per common share



developing today. New road-paving technology that uses steelmaking by-products could offer considerable environmental advantages over traditional road surfaces. *Solutions in Steel* ™ is the bedrock of a strategy aimed at creating sustainable value for all stakeholders.

Health and safety

Dofasco's commitment to its employees is widely recognized. In 2002, we received a Healthy Workplace Award from the National Quality Institute in recognition of our commitment to our people, including their health, safety and well-being.

In 2002, our health and safety performance did not meet the aggressive improvement targets we set in pursuit of our ultimate goal of an accident-free workplace. Our initiatives for 2003 will continue to focus on leadership, risk management and employee engagement, to achieve significant improvements in our key health and safety metrics.

Community

The health and well-being of the communities where Dofasco people live and work is an important component of our success. As an Imagine company, we continue to support our host communities through a corporate donations program which exceeded 1% of gross income in 2002, through extensive volunteer contributions of time, money and expertise by the company and our employees, and through local purchases and other economic contributions.

Executive and board changes

Dofasco's corporate governance policies and practices have contributed meaningfully to the company's success. One important aspect of good governance is succession planning and, in the past year, Dofasco's diligence in preparing for seamless executive change was again evident.

Bill Solski, Executive Vice President – Finance, retired at the end of 2002 after 32 years with Dofasco. Bill's significant contribution to the company's success included strategic leadership as well as sound financial counsel, as the company moved to the top rank of steelmakers in North America. Bill's many, many friends at Dofasco wish him and his wife Rachelle health and happiness in retirement.

Bill was succeeded by 26-year company veteran Walter Bilenki, who was appointed Vice President – Finance. In addition to his financial background, Walter has served Dofasco in a number of positions and most recently was President of Powerlasers.

John Mayberry will be retiring at the company's annual meeting on May 2, 2003 after 36 years of service, including ten years as Chief Executive Officer. John will also be stepping down as Chair of the Board. The board

A personal message from John Mayberry

When I accepted the role of CEO a decade ago, the senior management team and I felt that to realize our full potential, we had to tap into the experience and knowledge of every single Dofasco employee.

The success of Dofasco people in implementing our strategy has been extremely gratifying. It is proof that people can make a difference, if they are given the opportunity.

I have had the good fortune to work with a great management team; a wonderful, enthusiastic, involved workforce; and a very supportive and challenging Board of Directors. The ability of these people to work towards our common goals has been vital to our success. To each and every one of them, I offer my most sincere appreciation for giving me a very rewarding, fulfilling 36-year career.

We have a very extensive succession planning process and the time is right to hand the leadership baton to Don Pether, something we have planned for some time. I am very confident that Don and his team will continue to enhance Dofasco's position as a world class, globally competitive company.

I am looking forward to a more relaxed period in my life. To all of my friends at Dofasco, our Board of Directors, customers and shareholders, I thank you from the bottom of my heart for your ongoing support.

John Mayberry

The single-minded focus of our people enables us to achieve our growth strategy.

has indicated that it intends to elect lead director Brian MacNeill as Chair.

Don Pether will succeed John as CEO. Don joined the company in 1970 and is currently President and Chief Operating Officer.

Three other directors will also be leaving the board after the annual meeting. John Akitt, who joined the board in 1994 and currently chairs the Environment, Health and Safety Committee, has reached the mandatory retirement age. Rick George, chair of the Human Resources Committee, joined Dofasco as a director in 1995 and is leaving to focus on new responsibilities as Chairman of the Canadian Council of Chief Executives. Eleanor Clitheroe has also indicated that she will not stand for re-election and the board has accepted her resignation. The valued contributions of these three directors are greatly appreciated and will be missed.

In addition to the nine returning directors, Thomas O'Neill, retired Chairman and CEO of PwC Consulting will be standing for election to the board.

The effectiveness of Dofasco's corporate governance in general, and succession planning in particular, has resulted in the careful development of successive generations of company leaders through an evolutionary, rather than revolutionary, process. It is evident in the quality of the board and executive team that is in place and positioned to sustain our profitable growth.

Outlook and challenges

2002, like 2001, was a challenging year. It required single-minded focus from our people to achieve the targets of our growth strategy. Their performance was remarkable.

Dofasco employees capitalized on our industry leadership in delivery, customer service, quality and costs to take full advantage of improved market opportunities and our own enhanced operating capabilities. We sustained savings achieved through our Market Response Plan, which was implemented in 2001 to improve our 2002 financial performance. We increased throughput, production and shipments and we increased our share in every target market. We dedicated a major part of these gains to ensuring the sustainability of our growth, using the fruits of past success to strengthen the foundation for the future.

Through all this, Dofasco people made the difference. In the face of a constantly competitive world and steel marketplace, we have asked them to support an aggressive but achievable 2003 business plan that will further enhance our competitiveness, profitability and industry leadership.

For more than 90 years, Dofasco's approach to business has been based on strong relationships with all those who have a stake in our success – relationships built on respect and trust against a background of honesty in assessing the challenges and demands of the industry. Dofasco strives to practise the principles of sustainability in the broadest sense, by enlisting every company stakeholder – our employees, customers, shareholders, suppliers and host communities – in our ongoing prosperity. They know that we will live up to our promises, that we will deliver, because they know who we are, where we come from and what we stand for.

For a period during the 1990s it became fashionable in some quarters to herald the arrival of the virtual company as the future of enterprise. Dofasco never has been and never will be anything but a real company, based in Hamilton, Canada, and founded in the real and meaningful values that enable us to expand our horizons technologically and geographically and to be "at home in the world."

John Mayberry

John Mayberry
CHAIR OF THE BOARD AND
CHIEF EXECUTIVE OFFICER
MARCH 31, 2003

Don Pether

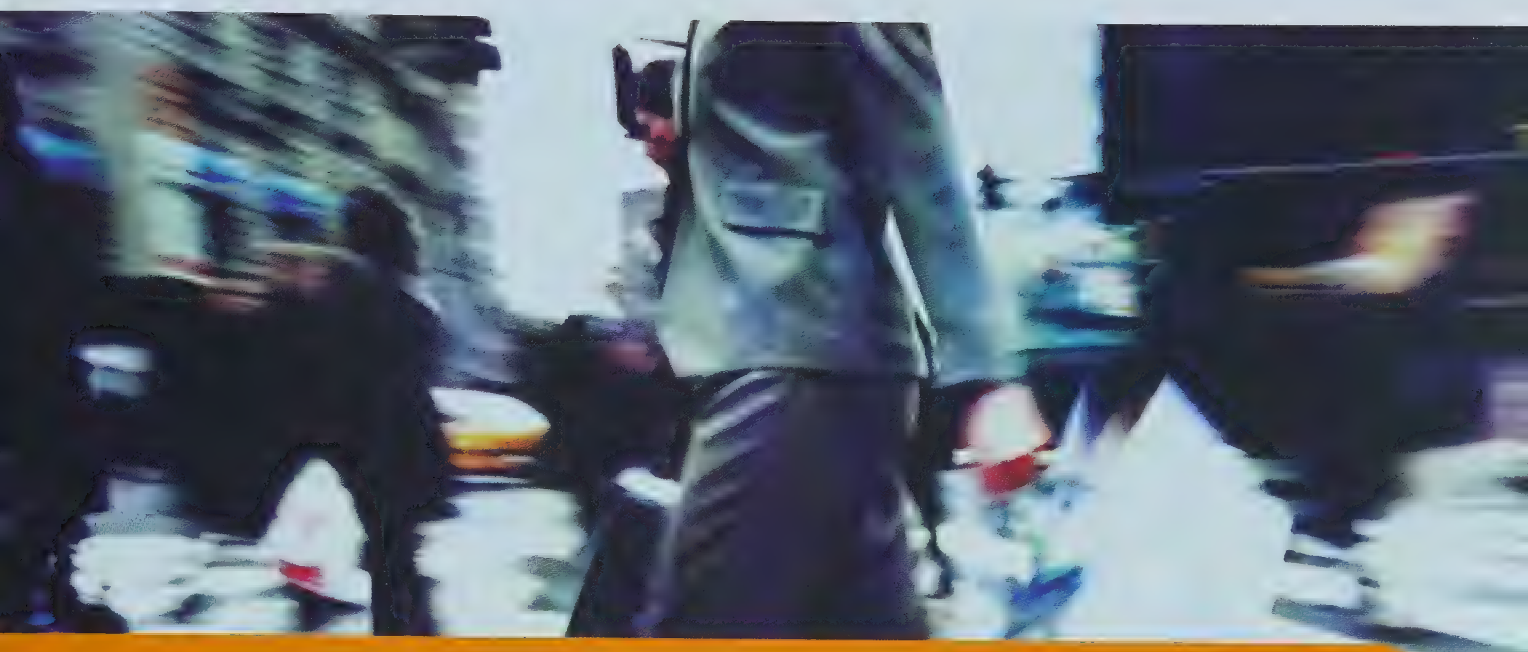
Don Pether
PRESIDENT AND
CHIEF OPERATING OFFICER

our relationship with shareholders

Dofasco and its shareholders have forged a relationship based on shared expectations and trust. The foundation of this relationship is our dedicated pursuit of sustainable value for our shareholders through a clearly defined corporate strategy, and a shared belief that strong values are important to success.

Dofasco's corporate governance practices ensure that the interests of shareholders are protected and that the best management and operating environment possible is created to enhance their investment. Dofasco's shareholders, represented by the Board of Directors, have been major contributors to the company's success – challenging management and providing critical support to the company's strategies.

There is strong evidence that we are doing the right things. Dofasco has delivered a profit in 89 of its 91 years, a record unmatched in the North American steel industry. Our consolidated return on capital employed (ROCE) in 2002 was almost 11%. $100 invested in Dofasco in 1997 has grown to $151. By comparison, $100 invested in the S&P/TSX Composite Index is worth $107, and $100 invested in the Steel Index has declined to only $69. Our dividend yield of 3.9% far exceeds the S&P/TSX Composite Index dividend yield of 1.9%. Dofasco's consistently strong cash flow allows us to invest in our people, and in new and upgraded facilities and technology, to generate further sustainable growth.

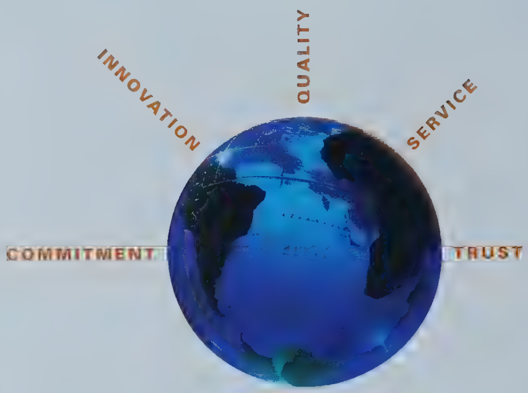


We follow through on our business strategies and are forthright in reporting our challenges, opportunities and progress.

generating value

As Corporate Secretary, **Urmas Soomet** works closely with Dofasco's Board of Directors and management to protect the interests of the company's shareholders.

our relationship with customers



Solutions in Steel ™ has redefined the nature of our relationship with our customers. We earn customers' trust by working with them to understand their needs, by implementing the world's newest and best technologies, and by constantly striving for the highest manufacturing, service and performance standards. As a result, we develop strong and lasting relationships with customers because they know we will work with them to create something innovative and unique by marrying their needs to our capabilities.

These kinds of relationships are a significant competitive advantage for Dofasco and have enabled us to remain profitable while virtually every other North American steelmaker lost money during the recent downcycle. Last year we ranked second overall among 27 North American steel suppliers in an industry-recognized customer satisfaction survey.

While we fully expect to have to compete for every customer, our experience over the past couple of years has been gratifying. Customers have been coming to us because of our reputation and credibility, asking us to help them achieve their goals.

In 2002, Dofasco's shipments grew 11%. Value-added products accounted for 85% of that growth, underscoring the success of the investments we have made to add value for our customers. With leading-edge products like steel tubes for hydroforming, Extragal™, Zyplex™ and laser-welded blanks, and production advances such as the Hot Mill and Finishing Division Improvement Programs, we expect to keep developing new products that exceed our customers' expectations.

We meet our own needs by **exceeding** our customers' expectations and by accomplishing things our competitors cannot.

generating quality

Rick Owens of the Automotive Sales Department meets regularly with customers across North America to ensure that Dofasco continues to exceed their expectations.

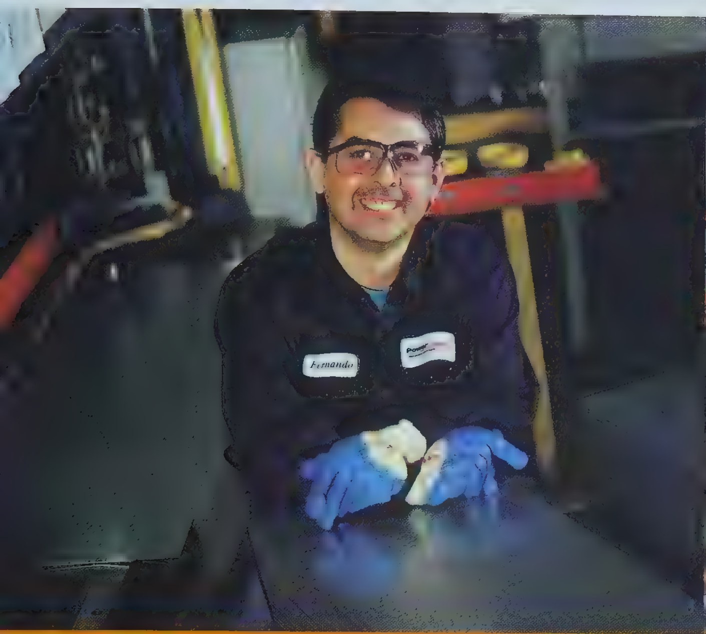
our relationship with employees

While Dofasco has invested more than $1 billion in new and improved facilities in the past five years, our most valuable asset remains our people. Our success is their success, and our strategies, operations, efficiency, prosperity and future rest in their hands. For 90 years, we have had a relationship with our employees defined by trust and respect, by high expectations and shared rewards, and by honesty and fairness.

This approach was recognized early in 2003. Dofasco was ranked among Canada's Top 100 Employers in a survey conducted by *Maclean's* magazine and Mediacorp Canada. The *Globe and Mail's Report on Business Magazine* named Dofasco one of the 50 Best Companies to Work for in Canada.

Our employees work in multi-level, multi-discipline teams that take on the challenge of implementing our *Solutions in Steel* ™ strategy in an ever-changing and increasingly competitive environment. The strength of these teams is evident in the creativity they exhibit in achieving their successes.

Our approach travels as well. The business culture and values that have served us so well in Hamilton preceded us as we extended our operations into Mexico in 2001 and Ohio in 2002. We were welcomed by employees and the local communities, both of which had an understanding of Dofasco by virtue of our relationships with employees in our home communities. In this manner, our values were instrumental in acquiring, constructing and starting up these facilities.



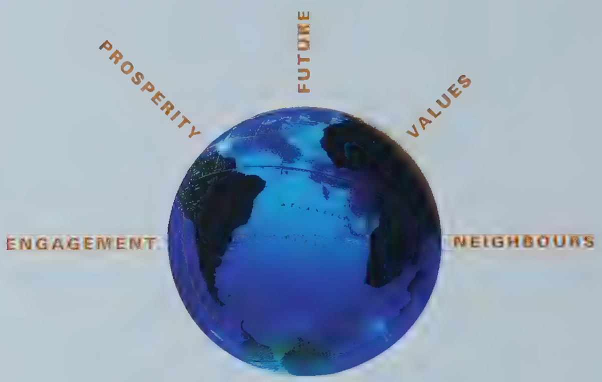
Our employees' ideas are **valued** and we work together to share the rewards of superior performance.

generating respect

Dofasco's practice of sharing the rewards of its success with its people has been continued at new subsidiary operations. **Fernando De Las Casas** (top left) works at Powerlasers, and **Dean Bogan** (top right) works at Dofasco Marion.

(Right) It is a priority for Dofasco to cultivate future generations of steel industry leaders. **Nikhil Bhanwra**, **Kristi Macdonald** and **Jacob Bradnam** all joined Dofasco in 2002.

our relationship with communities

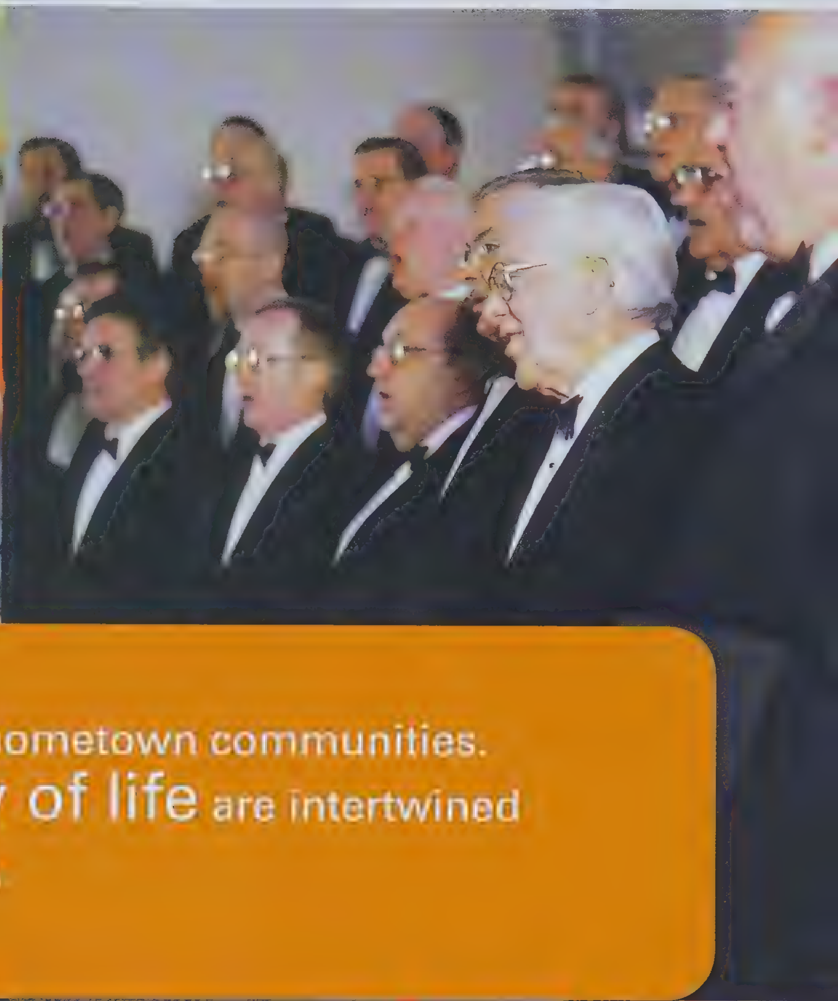


We believe that a community is as good as the people who live in it and the contributions they make to it. For more than 90 years, we have conducted our business in a way that seeks to sustain the health both of Dofasco and of the communities where we operate. Our long-term decisions are driven by the knowledge that our future in these communities will be at least as long as our past, and that our business is sustainable only if our community is sustainable.

This translates into a number of commitments for Dofasco: charitable donations, sponsorships, voluntarism, support of education and training, engagement in issues dealing with economic and community development, quality of life, and more.

We think this is the right approach, and again in 2002 the leading global sustainability authority supported that view. Dofasco's economic, environmental and social performance earned the company a fourth consecutive listing on the Dow Jones Sustainability World Index. Dofasco was also named the Basic Resources market sector leader for the third year in a row.

Dofasco operates in a global market. We seek global partnerships and global technology in order to be competitive on the global stage. But it is many years of relationship-building at home that is the foundation for our global success. We have learned that the more we expand our horizons, the greater the need becomes for a sense of community and a sense of trust.



Dofasco cares deeply for its hometown communities. Our prosperity and **quality of life** are intertwined with those of our neighbours.

generating prosperity

(Top left) Exhibiting the Dofasco commitment to community, **Bill Chisholm** and his wife, **Pat,** volunteer at the Casa Hogar Douglas orphanage near Dofasco de Mexico in Monterrey.

(Top right) The **Dofasco Male Chorus** performs throughout Ontario in support of local charitable causes.

(Right) Dofasco provides leadership support to the community in a number of ways. **Christy Towers** is co-chair of the YWCA of Hamilton's capital campaign. **Brian Aranha** chaired the 2002 United Way of Burlington, Hamilton-Wentworth campaign.

our relationship with suppliers

To be globally competitive requires a supply chain that can meet global benchmarks. At Dofasco, our goal is to build relationships with suppliers based on shared expectations of receiving quality goods and services at globally competitive value.

Testament to the strength of Dofasco's relationship with its suppliers is the success of our Market Response Plan, which was implemented in 2001 to improve our financial performance. We asked our suppliers to undertake the same kind of internal self-evaluation of costs that we were pursuing ourselves. We asked them to support cost changes that would provide the foundation for future prosperity for both of us. We will increasingly be working with our suppliers to identify further cost-saving opportunities and attain the competitive standards that will be key to our mutual sustainability.

Many of our suppliers have relationships with Dofasco that extend back decades, through generations of technology and quality products. With mutual respect for each other's needs and capabilities, we fully expect these relationships will extend just as far into the future.

Dofasco values long-term **partnerships** with our suppliers, providing a foundation for sustainable mutual success.

generating

Brian Benko of Dofasco's Purchasing Department works on the development of the company's on-line bidding initiative. The service allows the company to expand its supply base, providing improved value for the company and increased opportunity for suppliers. Launched in 2002 with select supplier groups, the initiative will be expanded in 2003.

In an effort to improve transparency of reporting and to engage stakeholders in the reporting process, Dofasco asked three community members to review the Social Well-Being and Environment and Energy sections of our annual report. We're pleased to present their opinion.

Dear Fellow Stakeholder,

Dofasco's 2002 Annual Report takes a broad approach to examining the company's performance and future plans, and includes an assessment of activities and progress in areas that impact all company stakeholders.

We have been asked, as representatives of the community, to review the quality and accuracy of the content and data in the Environment and Energy and Social Well-Being sections of Dofasco's 2002 Annual Report.

We were provided with these sections of the report in draft form and given the opportunity to examine them and comment on them. Dofasco management, representing all relevant areas of the company, was available to answer our questions on any area we felt needed explanation, including the company's accomplishments and shortfalls, clarification of data presented, methods of information collection, and goals for the future.

Reporting methodologies and standards for non-financial performance indicators vary greatly, and assessments of relative progress are difficult to measure. We believe that Dofasco has made a sincere effort to disclose all key Environment and Energy and Social Well-Being activities and performance measures in this report. We raised a number of issues with management relating to the form and content of this disclosure and we are satisfied that management was forthcoming and willing to engage in discussions about the company's performance. All questions were answered directly and detailed information was provided upon request. In a number of instances, changes were made to the annual report as a result. In other instances, Dofasco has indicated its intention to modify its approach in future annual reports, or when relevant data are available.

In signing this letter, we are stating that we find that Dofasco's 2002 Annual Report accurately presents useful data and reflects the company's challenges and successes from the environmental and social perspectives.

We believe Dofasco's demonstrated commitment to corporate social responsibility and to ongoing and open communications is admirable and exemplary.

Ann Buckle

Ann Buckle
COMMUNITY ADVISORY PANEL,
HAMILTON INDUSTRIAL
ENVIRONMENTAL ASSOCIATION

Brian McCarry

Dr. Brian E. McCarry
PROFESSOR,
STEPHEN A. JARISLOWSKY CHAIR
IN ENVIRONMENT AND HEALTH,
McMASTER UNIVERSITY

Joey Edwardh

Dr. Joey Edwardh
EXECUTIVE DIRECTOR,
HALTON SOCIAL PLANNING COUNCIL
& VOLUNTEER CENTRE

social well-being

A strong community is a **foundation** for growth and success. And the strongest communities are built on relationships, trust and shared goals among stakeholders.

Subsidiaries

Dofasco acquired a Marion, Ohio tube manufacturing facility in 2002. Dofasco Marion joins Dofasco de Mexico and Powerlasers as wholly owned subsidiary companies. While these companies represent significant growth opportunity for Dofasco, they are also representative of Dofasco as a company that works according to the principles of sustainability and the triple bottom line of financial strength, environmental stewardship and social well-being.

Subsidiary companies have policies and practices that align with these principles and adhere to Dofasco's General Code of Conduct, maintaining high standards of integrity in dealing with stakeholders.

For financial reporting purposes, subsidiary companies are included in Dofasco's Steel Operations segment. Due to the nature of their businesses, their relatively small operations and number of employees, subsidiary companies have been included anecdotally and where appropriate in the Social Well-Being and Environment and Energy sections of this Annual Report. Charts and graphs refer only to Dofasco's Hamilton operations.

(Above): **Randy Davis** #4 Pickle Line—Team Member and his son **Matthew**

social well-being
prosperity

Dofasco believes the sustainable prosperity of the company and its home communities are intertwined.

Economic development

Dofasco is the largest contributor of tax revenues to the City of Hamilton and remains engaged in economic development activities for the city and the surrounding regions.

In 2002, Dofasco's CEO served as co-chair of the Niagara BiNational Region Economic Roundtable, which examined economic development strategies for the Golden Horseshoe and Western New York State. The roundtable developed a report to civic leaders in early 2003.

Dofasco also participated in the Hamilton Chamber of Commerce's 2003 economic outlook process. The company introduced the concept of an advanced manufacturing economic cluster and is pursuing this idea with local community leaders.

Dofasco de Mexico is an active participant in the COPARMEX – Confederación Patronal de la Republica Mexicana – a national association of companies that collaborate to identify and promote economic development opportunities. Dofasco Marion and Powerlasers' Pioneer location participate in local chambers of commerce.

Supplier relationships

Sustaining close, mutually beneficial relationships with suppliers contributed to Dofasco's success in 2002. Suppliers worked closely with the company on a variety of projects, resulting in annualized savings of more than $20 million. These savings improve the company's competitive position and contribute to long-term success.

Capital investments

In 2002, Dofasco announced a $700 million improvement project for its Hamilton operations. Between 2002 and 2007, Dofasco will significantly revamp its Hamilton Finishing Division in order to enhance product quality and product mix, reduce costs and improve service. This is a major investment in Dofasco's future and represents a significant and long-term commitment to Hamilton. The company estimates approximately $350 million – half the project budget – will be spent in southern Ontario on labour, materials, services and equipment.

Compensation

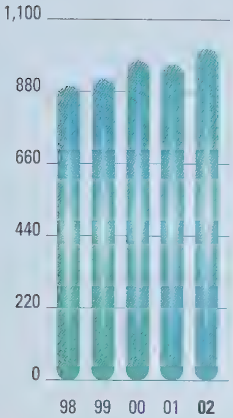
The year 2002 was one of Dofasco's most successful. Dofasco employees shared in the rewards of this success. A portion of every Hamilton employee's compensation is tied to specific annual targets, including return on capital employed, gross income, cost, revenue, customer service, and health and safety.

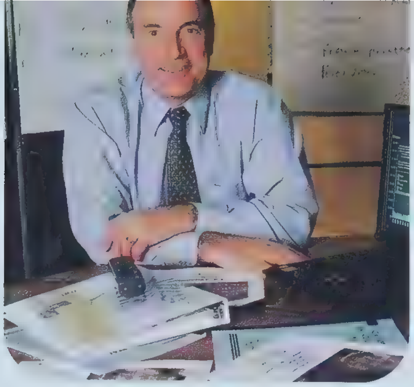
In addition, Dofasco was the first company in Canada to introduce profit sharing, in 1938. Each year, 14% of Hamilton's pre-tax profits are divided equally amongst permanent full-time employees. In 2002, Hamilton employees shared $50.7 million in profit sharing.

The Dofasco employee pension plans are fully funded.

Dofasco subsidiaries share similar compensation philosophies to Dofasco. Dofasco de Mexico offers profit sharing and variable compensation pay, based on meeting performance goals. Dofasco Marion and Powerlasers employees receive variable compensation pay.

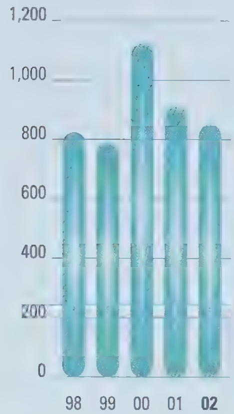
MATERIAL AND
ENERGY PURCHASES
millions of dollars





Paul McLenachan of Dofasco's Treasury Department provides retirement planning advice to employees. It is Dofasco's goal to help every employee retire healthy and financially secure.

DIRECT
LOCAL PURCHASES
millions of dollars

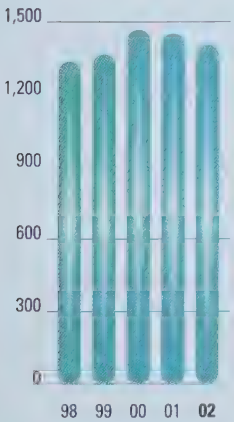


Dofasco's long-term prosperity and viability is closely linked to the prosperity of our home communities and our stakeholder groups.

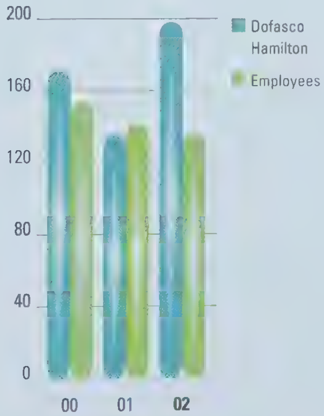
social well-being

Approximately half of Dofasco's total direct purchases were bought locally. In 2002, more than $850 million was spent in the Hamilton region on raw materials, equipment, labour and services.

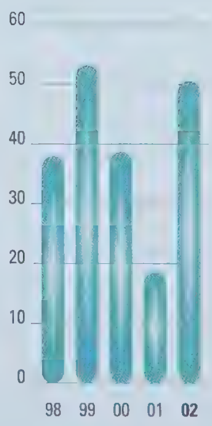
TOTAL CONTRIBUTIONS
TO ECONOMY
Total wages plus material and energy purchases
millions of dollars



TAXES PAID BY DOFASCO
AND EMPLOYEES (HAMILTON)
Taxes include: payroll, property, income and capital, royalty, commodity, income, CPP, EI
millions of dollars



CONTRIBUTIONS
TO PROFIT SHARING
millions of dollars



social well-being
community capacity

Engagement in the development of community leadership, voluntarism, civic improvement and corporate giving is a priority for Dofasco.

Capacity building
As part of the Imagine program of the Canadian Centre for Philanthropy, Dofasco participated in formulating "A New Agenda for Corporate Citizenship." Discussions have focused on benchmarks for corporate commitments to community investment, social capital and community capacity building, and an affirmation of a core commitment to philanthropy. As part of this program, Dofasco participated in a "Private-Voluntary Sector Forum", where partners from the private and voluntary sectors discussed community capacity building. Dofasco is pleased to be part of these discussions and will continue its involvement in 2003.

Leadership is a building block of community strength and strong stakeholder relationships. Dofasco has built its own leadership development program on a stakeholder framework. All company managers attend the Foundations Program, which focuses on how leadership, values and strategy contribute to delivering sustainable stakeholder value. More than 150 employees attended Foundations in 2002.

Dofasco's business planning model also focuses on stakeholder value. For instance, when considering a potential capital investment, a cross-functional team considers the potential impact on customers, shareholders, employees, the environment, the community and suppliers before a decision is made.

Volunteer sector
Dofasco people volunteer thousands of hours in the community. While absolute hours of voluntarism are not measured, Dofasco began measuring voluntarism trends in 2001. In 2001, 39% of Dofasco employees indicated they volunteered in the community. In 2002, this number rose to 43%. All members of Dofasco's senior management team are engaged in volunteer activities. Dofasco employees sit on numerous boards of directors for local organizations.

In 2002, Dofasco celebrated its 25th year of support of the Stratford Festival. Dofasco has continuously supported the festival since its inception. Dofasco was also sponsor of the Ontario Music Festival, held at McMaster University, which welcomed hundreds of Ontario's finest young musicians.

Among other support activities in 2003, Dofasco is providing both financial and volunteer support to the World Cycling Championships being held in Hamilton.

In 2002, employees of Dofasco de Mexico participated in the LUDOTECA project to rebuild a local community school. The company also supported Cervantino, a national event promoting arts and culture. Dofasco Marion supports the United Way, sponsors American Heartwalk, and its employees are engaged in various other local activities. Powerlasers supports Child Find and the Shriners.

Tony Maddalena of Human Resources volunteers with Junior Achievement. The program educates young people about business and economics in order to help them discover leadership, entrepreneurial and workforce readiness skills.

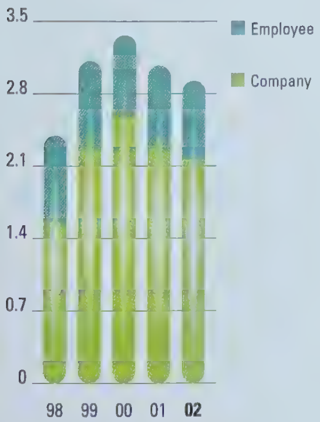
In 2002, Dofasco and its employees donated more than $2.9 million to civic and cultural causes, education, health care and social services. The vast majority of funds are distributed locally. The company has been designated a Caring Company by the Imagine program of the Canadian Centre for Philanthropy.

Dofasco and its employees were the **largest single supporter** of the United Way of Burlington, Hamilton-Wentworth in 2002, giving $780,000 to the campaign.

social well-being

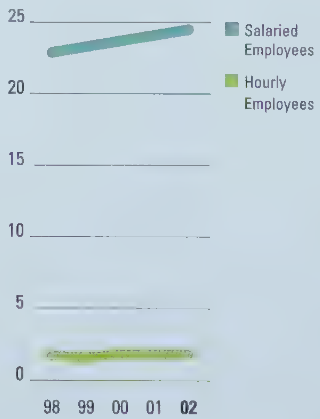
Dofasco is committed to transparent communication with stakeholders, which includes a clear description of the types of organizations the company supports financially. Please refer to Dofasco's website (www.dofasco.ca) for the company's Guidelines for Giving.

TOTAL COMPANY AND EMPLOYEE DONATIONS
millions of dollars



2002 DONATIONS BY SECTOR
millions of dollars

GENDER DIVERSITY
% female employees



social well-being
quality of life

Health and safety
Dofasco was honoured with a National Quality Institute (NQI) Healthy Workplace Award in 2002. The award recognizes the company's commitment to continuous improvement in employee health, safety and well-being.

Lost-time injuries (LTIs) and all-reported injury frequency did not meet expectations in 2002, and these are priority areas for 2003. However, there were significant examples of progress, with two departments – DoSol Galva and Hot Rolled Products – marking a full year without an LTI. Improvement initiatives in 2003 will focus on leadership, risk management and employee engagement.

Physical demands analyses were continued across the company in 2002 to identify aspects of job functions that could contribute to injuries, and recommendations were made to address ergonomic concerns. Other initiatives, such as employee awareness programs, implementing housekeeping standards, and health and fitness initiatives will be intensified in 2003.

Dofasco de Mexico, Dofasco Marion and Powerlasers continue to develop thorough health and safety management systems. In 2003, Dofasco health and safety specialists from Hamilton will work with subsidiary companies to identify areas of best practices and areas of potential improvement.

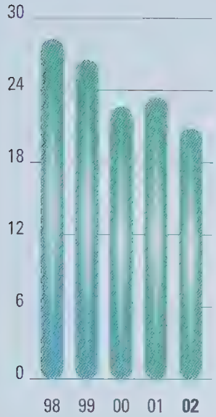
Wellness
Dofasco's Lifestyle Program is a grassroots, employee-driven program that continues to grow. In 2002, 56 health and safety days were held across the company, where employees discussed nutrition, stress, exercise and home and work safety.

The company's second on-site plant fitness facility opened in 2002, and now averages 1,400 visits per month. A third facility will open in 2003. In response to employee demand, the Lifestyle Program continues to expand its offering of programs such as aerobics, tai chi and yoga. The company's Weight Watchers at Work program continues to benefit employees. Since 1997, Dofasco employees have lost a total of 29,000 pounds.

Education and training
Dofasco invested approximately $15 million in employee education and training in 2002. The company is concerned about the need for skilled trades people in the Hamilton region. In 2003, Dofasco will invest an additional $13 million in apprenticeship training, and has taken an active role in working with other companies, local organizations and government to highlight the issue and promote skilled trades careers.

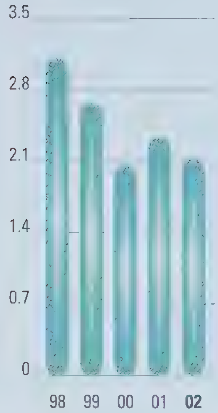
In 2002, the company received a Business Leadership Award from Canada Post's Literacy Awards for Dofasco's Essential Skills Program. Dofasco was also honoured with an Award of Excellence from the Yves Landry Foundation, recognizing the company's leadership in addressing skilled trades shortages.

ALL REPORTED
INJURY FREQUENCY
Injuries per
100 employee-years



Dofasco's 2002 Health and Safety Fair hosted more than 3,400 employees. This employee-run event provides lung capacity testing, blood pressure, blood sugar and cholesterol screening, as well as 85 exhibits offering information on health issues ranging from smoking cessation to healthy diet.

LOST TIME INJURIES
Injuries per
100 employee-years

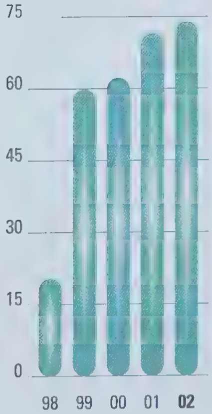


Nothing is more important than **health and safety.** Dofasco continues to focus on this as a top priority and a key measure of the company's success.

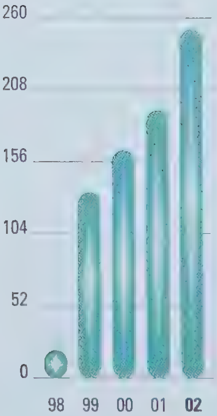
Employee satisfaction remains high at Dofasco, which is also evidenced by low attrition rates. In 2002, Dofasco was included in *Report on Business Magazine*'s 50 Best Companies to Work for in Canada.

EMPLOYEE
SATISFACTION
Attrition and job satisfaction

SCHOLARSHIPS
To employees' children
thousands of dollars



TUITION REFUNDS
To employees
thousands of dollars



Dofasco holds interests in a number of joint venture companies. These companies are run by their own management teams and boards of directors and follow their own reporting requirements. Key environment, energy, health and safety data are neither amalgamated nor reported with Dofasco's.

However, as a partner in these companies, Dofasco expects joint venture companies to operate **responsibly.** A summary table of key environmental and health and safety performance indicators is below.

Health and Safety

COMPANY	FACILITY	KEY PERFORMANCE INDICATOR	2000	2001	2002	2003 GOAL
Baycoat	Hamilton	Lost Time Injury – Frequency*	3.8	0.9	**0.8**	0
		Severity**	173.5	40.2	**99.2**	n/a
Gallatin Steel	Kentucky	OSHA Recordables*	12.08	9.55	**5.45**	4.9
Quebec Cartier Mining Company	All Facilities	Lost Time Injury – Frequency*	2.4	2.7	**2.1**	<2
		Severity	35.9	31.2	**22.2**	<22
DNN Galvanizing	Windsor	All Reported Injuries	12	19	**15**	0
		Compensable Injuries	8	10	**9**	0
		Lost Time Injuries	0	0	**2**	0
		Days Lost	0	0	**9**	0
Sorevco	Coteau-du-Lac	Lost Time Injuries	8	4	**4**	0
		Recordable Injuries	3	2	**3**	4
Wabush Mines	Scully	Reportable Injury Frequency*	2.31	1.92	**3.39**	1.7
	Pointe Noire	Reportable Injury Frequency*	12.8	14.0	**9.2**	4.6

* per 100 employee-years
** days lost per 100 employee-years

Environment and Energy

COMPANY	FACILITY	KEY PERFORMANCE INDICATOR	2000	2001	2002	2003 GOAL
Baycoat	Hamilton	**Air** Odour complaints	0	0	**0**	0
		Water # of exceedances	0	1	**1**	0
Gallatin Steel	Kentucky	**Water** # of exceedances	23	18	**20**	0
		Air # of times out of compliance on CO and NOx at EAF	n/a	n/a	**0**	0
Quebec Cartier Mining Company	All Facilities	**Reportable Spills**	11	13	**11**	0
		Notices of Infractions	0	1	**0**	0
	Mont-Wright	**Water Regulations** % compliance	99	98.3	**99.3**	100
		Energy Electricity (kWh per ton of concentrate)	29.7	31.5	**32.9**	31
	Pellet Plant	**Water Regulations** % compliance	100	100	**100**	100
		Energy Bunker C + Coke Breeze (MJ per ton produced)	753.7	725.5	**758.1**	750.0
		Electricity (kWh per ton produced)	66.70	67.30	**69.9**	67.0
	Railroad	**Energy** Diesel Fuel (litres per 1000 tons-km)	2.77	2.73	**2.79**†	2.51
	Port	**Energy** Bunker C: (kL)	7,062	6,187	**5,215**	5,400
		Electricity (MWh)	50.0	42.6	**44.1**	46.1
DNN Galvanizing	Windsor	**Utilities** Water: (m^3 per ton)	.86	.79	**.81**	n/a
		Utilities Hydro: (kWh per ton)	134.90	123.40	**133.85**	n/a
		Utilities Natural Gas: (m^3 per ton)	40.82	35.22	**37.95**	n/a
Sorevco	Coteau-du-Lac	**Regulations** # of violations	0	1	**0**	0
Wabush Mines	Scully	**Air** % compliance	99.2	100	**99.9**	100
		# of reportable spills	n/a	14	**3**	2
		Hazardous Waste Tons per year	n/a	102	**104**	150
		Energy Consumption Electricity (kWh/ton of product) Bunker C (gallons/ton of product)	142 1	145 1	**105** **0.97**	105 0.97
	Pointe Noire	**Reportable Spills**	15	8	**5**	4
		Energy Consumption Electricity (kWh/ton of product) Bunker C (gallons/ton of product)	72 2.5	76 2.5	**75.5** **2.4**	74 2.1
		Ambient Air % compliance	70	80	**72**	80

† In 2002, idle consumption was included

environment and energy

The **conservation** and protection of the natural environment is a fundamental consideration in Dofasco's decision making. Environmental quality and the well-being of our community are primary goals for all Dofasco people.

Policy on Environment

Sustainable Development. We will take an integrated approach to improve our environmental performance, improve the quality of life of our employees and the community, and achieve our financial goals.

Managing Resources. We will optimize the use of resources by reducing, reusing, recovering and recycling energy, raw materials, water and by-products.

Pollution Prevention. We will minimize our environmental impact through innovative design and practices to improve our processes and our products.

Product Stewardship. We will work with our customers and suppliers to maximize the inherent advantages of steel's strength, recyclability and cost-effectiveness across the steel product life cycle.

Continual Improvement. We will use our environmental management system, which includes setting objectives, assigning responsibilities, communication, training, auditing, and assessing risks, to achieve the

Exceeding Expectations. We will meet standards set by legislation and go beyond compliance where appropriate through voluntary commitments to stakeholders.

Dofasco's goal is to be the North American leader among steel companies in environmental performance.

Dofasco focuses on four key performance area[illegible]

- Energy use
- Air quality
- Water use and water quality
- Management of secondary materials

Performance in these areas is detailed in the following pa[illegible]

[illegible] **Environmental Management Agreement** with [illegible]

In 2002, Dofasco successfully completed its first ISO 14001 surveillance audit since achieving registration in 2001. Five auditors reviewed the Environmental Management Systems of Dofasco's 13 business units to ensure the systems were being implemented. The audit resulted in one significant administrative finding requiring improvement relating to the annual review process in one of the manufacturing business units. This finding has been resolved. A number of smaller areas for improvement were also identified and are being addressed.

Powerlasers is ISO 14001 registered at its manufacturing locations. Dofasco de Mexico expects to complete the registration process by the end of 2003. Dofasco Marion will initiate the registration process in 2003.

As part of Dofasco's environmental management program, suppliers are encouraged to adopt an environmental management system. Environmental guidelines are set out in correspondence sent to certain Dofasco suppliers who provide chemicals, refractories, lubricants, fuels and industrial supplies. Included in this correspondence is a list of prohibited and restricted substances.

Dofasco was awarded an inaugural GLOBE Award for Environmental Excellence in 2002. The company was named a co-winner of "The Corporate Competitiveness Award", recognizing the company's record of environmental stewardship that has materially contributed to enhanced economic competitiveness through a commitment to environmental excellence.

Dofasco also received the 2002 Leadership Award from Canada's Climate Change Voluntary Challenge and Registry Inc. for the Primary Metals sector. The award recognizes environmental excellence and best practices for taking concrete steps to reduce greenhouse gas emissions.

environment and energy
energy

As one of Canada's largest consumers of energy, Dofasco recognizes its responsibility to continuously improve energy efficiency and reduce greenhouse gas emissions.

Dofasco has committed to reducing Specific Energy Consumption (SEC) by 10% between 2000 and 2010 as part of a Canadian steel industry commitment. Between 1990 and 2000, Dofasco reduced SEC by almost double this target under a prior voluntary commitment.

In 2002, Dofasco reduced SEC by 8.6% from 2001 levels, from 18.8 to 17.2 gigajoules/tonne of steel shipped. The improvement is primarily a result of the company's Hot Mill Improvement Program. An important aspect of this program was the installation of new equipment to preserve the heat of steel slabs prior to being rolled into strip. Steel quality was improved and reheat furnace energy required to heat steel slabs was reduced. Energy use was reduced by approximately 670,000 gigajoules, enough to heat more than 4,500 homes for one year.

Dofasco believes climate change is a significant environmental issue that requires greater understanding of innovative long-term solutions to protect our shared environment. The company is pleased the federal government has adopted a collaborative approach to developing industry agreements as part of Canada's climate change strategy. Dofasco will continue to work with government towards implementation, and believes that early voluntary action must be recognized by the Canadian government.

Dofasco also recognizes that the implementation of the Kyoto Protocol is the first step in reducing greenhouse gas emissions. In the future, advances will likely come from new technologies and innovative approaches to energy use. The steel industry is engaged in a worldwide effort to explore longer-term solutions.

Dofasco is working with the Hamilton Chamber of Commerce on a pilot project to help small- and medium-sized businesses improve energy efficiency and reduce costs. The project's goal is to increase the competitiveness of local companies while contributing to greenhouse gas reductions. If successful, this approach may be replicated across Canada through local chambers of commerce.

Dofasco will continue to benchmark itself against the global steel industry leaders in an effort to improve energy efficiency.

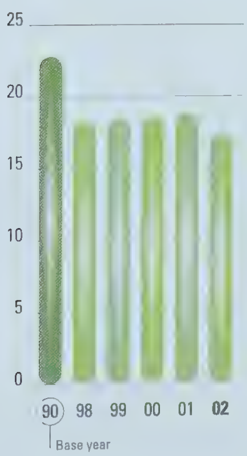
Powerlasers, Dofasco Marion and Dofasco de Mexico use only nominal amounts of energy to run their operations. However, both Dofasco de Mexico and Powerlasers will be examining methods of improving energy efficiency in 2003.

The company continued its Energy Assessment Program in 2002 in the Cokemaking and Galvanizing business units. **Claudio Riganelli** was a team member examining energy use in Galvanizing. A number of recommendations relating to equipment optimization and work practices were made and will be implemented in 2003.

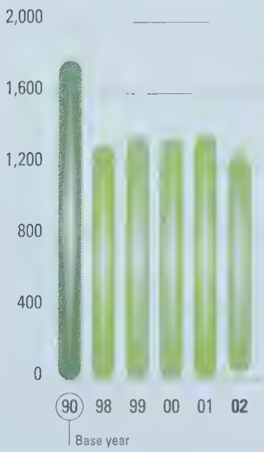
Dofasco continues to explore alternative energy options, including co-generation and wind generation of electrical power. Future decisions will be made based on environmental impact, cost competitiveness and energy efficiency.

Dofasco has voluntarily and aggressively addressed carbon dioxide emissions and is committed to further voluntary efforts to address climate change. Between 1990 and 2002, absolute greenhouse gas emissions have been reduced by 22%.

SPECIFIC ENERGY CONSUMPTION
gigajoules/tonne of steel shipped



SPECIFIC GREENHOUSE GAS* EMISSIONS
kg/tonne of steel shipped



* These gases include CO_2, CH_4, N_2O

environment and energy
air

Dofasco continued to work with Ontario's Ministry of the Environment as a participant in the Clean Air Plan for Industry (CAPI). In 2002, the government consulted with stakeholders in establishing emission limits for sulphur dioxide (SO_2) and nitrogen oxides (NOx). Dofasco is participating with government in reviewing limits and costs associated with smog reduction technologies and practices. Dofasco is committed to reducing emissions and will continue to work with stakeholders to improve air quality.

The company also collaborated with the provincial government on its Selected Targets for Air Compliance (STAC) program. Dofasco has committed to providing a detailed emissions inventory and dispersion modelling results to the Ministry of the Environment by May 2003. This method of measurement is used in addition to specific emissions testing to assess environmental impact.

Data from the STAC program will be particularly valuable to Dofasco as it will help the company determine how it can grow or alter its Hamilton plant to maximize competitiveness while achieving environmental objectives.

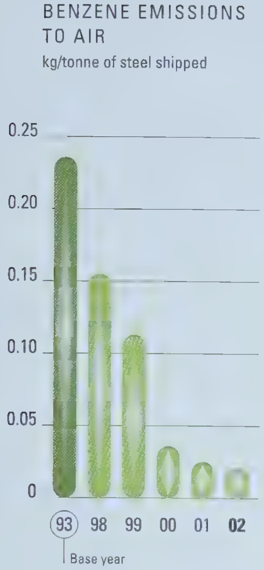
Dofasco submitted a voluntary emissions reduction plan to Ontario's Ministry of the Environment for the company's iron, coke, steel and utilities business units. The plan includes a number of activities to reduce instances of visible emissions, and contributes to the company's ability to meet emission targets for polycyclic aromatic hydrocarbons (PAHs).

In 2002, SO_2 emissions rose 20% from 2001 levels. A mechanical problem with a compressor in the company's by-products area resulted in a lower volume of coke oven gas being de-sulphurized. The mechanical problem has been resolved.

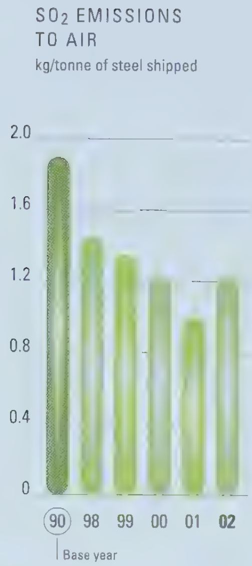
In 2002, company representatives sat on the Advisory Committee of Ontario's Switch Out program. The program's objective is to remove switches containing mercury from scrapped automobiles before the scrap is recycled into new steel. This would reduce emissions of mercury from steel mills. Dofasco will work with scrap steel suppliers to educate them and urge them to participate in the Switch Out program.

In response to some community questions regarding odours, Dofasco conducted extensive testing to assess odour sources and treatment options in 2001 and 2002. This process was discussed with neighbours at public meetings. In 2002, Dofasco installed an odour neutralizing unit at one of the company's cold rolling mills. In early 2003, odour reducing equipment was also installed at the company's Cold Mill Waste Water Treatment Plant. Dofasco will continue to liaise with community members to ensure concerns have been addressed.

Powerlasers, Dofasco Marion and Dofasco de Mexico emit only trace amounts of non-hazardous pollutants to air. Powerlasers' Pioneer manufacturing facility has implemented a program to monitor emissions from forklifts.



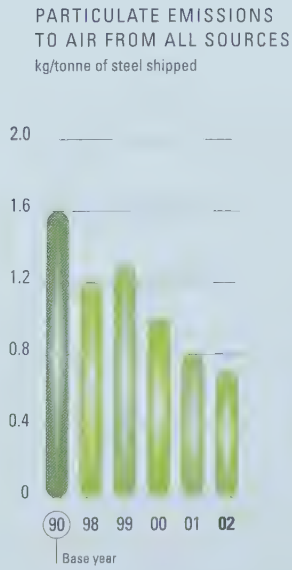
Control of wind-blown dust is important to Dofasco and its neighbours. In 2002, the company planted more than 5,000 square metres of trees, shrubs and grasses and paved more than 15,000 square metres of roadway in an effort to reduce dust created by vehicles and plant operations. **Sheila Stacey** coordinates Dofasco's dust abatement program.

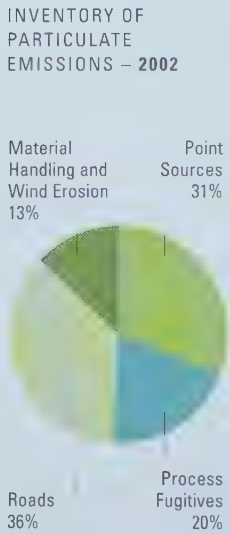


Dofasco worked with Environment Canada and the steel industry to develop **Canada-wide Standards** for dioxin and furan emissions. In 2002, Dofasco tested dioxin and furan emissions at its Hamilton plant. Levels were half the proposed 2010 limit.

environment and energy

Benzene emissions were reduced by 10% and polycyclic aromatic hydrocarbon (PAHs) emissions were reduced by 26% from 2001 levels, due to improved work and maintenance practices. Since 1993, benzene emissions have been reduced by 90% and PAHs emissions have been reduced by 83%, well ahead of the company's Environmental Management Agreement commitments.





environment and energy
water

Dofasco completed a comprehensive groundwater study in 2002, the third such study in the last ten years. All three studies confirmed there was no contaminated groundwater entering Hamilton Harbour from Dofasco property.

In 2002, reportable spills to water were reduced by 34% from 2001, from 29 to 19 spills. These reported spills were minor in nature, were quickly resolved and did not have any adverse effect on the environment.

The conservation of Hamilton Harbour is of significant importance to the community and to Dofasco. The company's boat slip contains contaminated sediment from a time that pre-dates environmental awareness and control technologies. The company, along with interested stakeholders including Environment Canada and Ontario's Ministry of the Environment, has been examining options to address this issue and will continue this effort in 2003.

There was an increase from 2001 levels in the discharge of ammonia to Hamilton Harbour from the company's blast furnace. However, 2002 levels remained at less than half the Municipal-Industrial Strategy for Abatement (MISA) regulated limits. Dofasco is reviewing operational performance at the blast furnaces to identify opportunities for improving effluent quality in 2003.

In 2002, the Primary Service Raw Material Department worked with an external spill response expert to assess Dofasco's spill response capabilities. Overall, the assessment was very supportive of Dofasco's system and helped to identify additional classroom and on-the-water spill containment and clean-up exercises.

Dofasco was an active participant in the re-writing of the Hamilton Harbour Remedial Action Plan (HHRAP) in 2002. A Dofasco representative sat on the HHRAP Executive Committee. The goal of this multi-stakeholder organization is to have the harbour removed from the International Joint Commission's list of areas of concern in the Great Lakes. Dofasco is also active with the Bay Area Restoration Council and the Bay Area Implementation Team.

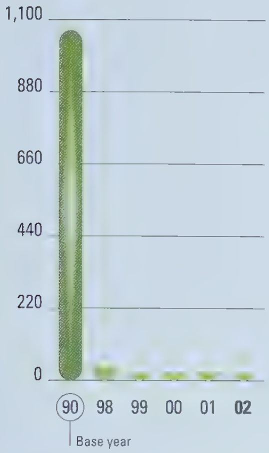
In 2001, Dofasco was charged under Ontario's Environmental Protection Act and Ontario's Water Resources Act. The charges relate to a release of oil to the company's boat slip that occurred in January 2000. This is an issue of importance to Dofasco and is being addressed through the legal system.

Dofasco is committed to outperforming MISA requirements, and met or surpassed all requirements in 2002.

Dofasco de Mexico has a self-contained water system that collects and treats all process water. Dofasco Marion uses water for non-contact cooling purposes. Powerlasers uses distilled process water in a closed loop process at its Pioneer and Concord facilities.

SUBSTANCE	MISA LIMIT (KG/DAY)	DOFASCO PERFORMANCE (KG/DAY)	% OF LIMIT
Suspended Solids	646	97	15%
Cyanide	19.8	0.4	2%
Ammonia	152	67	44%
Lead	6.08	0.7	11%
Zinc	11.7	2.5	21%
Phenolics	0.364	0.1	28%

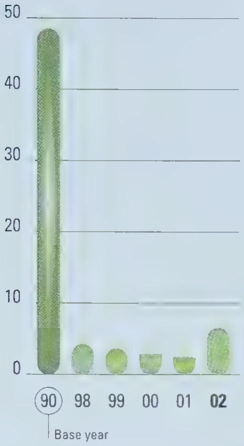
TOTAL PROCESS EFFLUENT
TO HAMILTON HARBOUR*
g/tonne of steel shipped



* Includes ammonia, phosphorus, suspended solids, oil & grease, DOC, phenolics and cyanide

Sarodha Rajkumar monitors water quality at Dofasco's Cold Mill Waste Water Treatment Plant. She is one of dozens of employees who ensure the company meets and surpasses performance requirements.

AMMONIA
TO HAMILTON HARBOUR
g/tonne of steel shipped

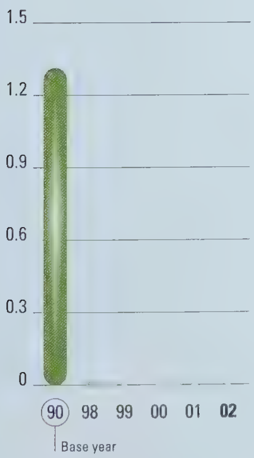


surpassed regulatory requirements.

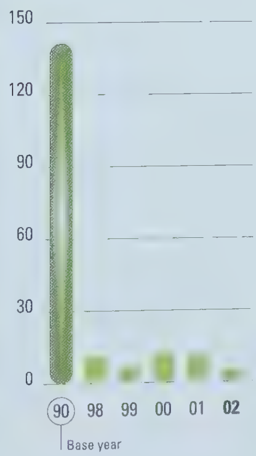
environment and energy

Since 1990, Dofasco has reduced loadings to Hamilton Harbour by approximately 99%, thanks to closed loop recycling systems such as those that recirculate virtually all process water from Primary Manufacturing operations.

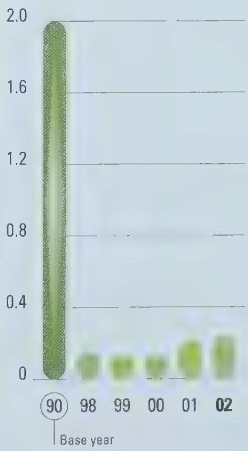
PHENOL
TO HAMILTON HARBOUR
g/tonne of steel shipped



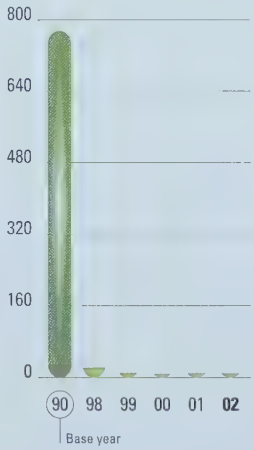
DISSOLVED
ORGANIC COMPOUND
TO HAMILTON HARBOUR
g/tonne of steel shipped



ZINC
TO HAMILTON HARBOUR
g/tonne of steel shipped



SUSPENDED SOLIDS
TO HAMILTON HARBOUR
g/tonne of steel shipped



environment and energy
secondary materials

Dofasco continually seeks opportunities to maximize the inherent value of secondary materials.

As a result of the Golden Horseshoe By-Product Synergy Project, Dofasco successfully completed a trial of diverting waste oxides from Primary Steelmaking Operations to be used in the cement industry. Approximately 13,000 tonnes was diverted from landfill in 2002, and this effort will continue in 2003.

In 2002, employees from Primary Services, Environment and Purchasing worked together to develop a solution for one of Dofasco's coal storage fields, which contained mixed grades of coal unsuitable for Dofasco's purposes. The field was excavated and the coal sold. The area was then redressed with 85,000 tonnes of kish, a non-hazardous secondary material from Ironmaking. The area is now being used for the storage of secondary materials, and Dofasco has consolidated its coal storage fields into one location. The result: revenue was generated from the sale of the unsuitable coal and recovered iron, a coal field was eliminated, and Dofasco was able to divert material from landfill. This collaborative effort resulted in a net benefit to Dofasco of approximately $5 million.

All of the company's steel and blast furnace slags, totalling 765,000 tonnes, were recycled in 2002. Within Dofasco, more than 121,000 tonnes were used to build roads and storage areas or were consumed back into Dofasco's operations. The remaining 643,000 tonnes were sold and used in the manufacture of cement, cinder block, road aggregate and asphalt.

Dofasco also began selling steel slags to steel industry suppliers, who reclaim and produce calcium aluminate. In this manner, Dofasco reduced landfill costs and burdens, while generating revenue.

The company is currently conducting trials with steel slags to make asphalt that lasts longer, wears better and requires less maintenance. This activity was undertaken for internal purposes, as Dofasco roads are used by extremely heavy equipment, but may also be applicable outside Dofasco.

The federal government has proposed a deadline of 2009 for the removal and safe disposal of electrical equipment containing PCBs. Dofasco initiated a PCB phase-out program in 1999. To date, the company has removed almost 420,000 kg of PCB liquids and nearly 785,000 kg of transformer shells for secure destruction. In 2002, the company removed more than 100,000 kg of PCB liquids and almost 480,000 kg of transformer shells. Dofasco's PCB phase-out program is expected to be complete by the end of 2006.

Dofasco conducts assessments of environmental service providers to ensure secondary materials from the company are handled according to applicable regulations and according to agreements between Dofasco and the service provider.

Powerlasers, Dofasco Marion and Dofasco de Mexico produce few secondary materials. All scrap metal created by these operations is recycled to steel manufacturing. Process oil from the Dofasco de Mexico and Dofasco Marion tube mills is captured and recycled.

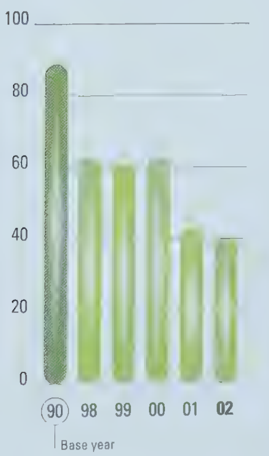
Secondary materials are a valuable commodity. **John Miller** of Dofasco's Purchasing Department helps generate revenue for the company by selling iron and steel secondary materials into new markets. In 2002, more than $30 million of secondary materials were sold.

The year 2002 was the first complete year of operation of a pneumatic silo at the company's Electric Arc Furnace (EAF). This allows the company to store and transport EAF dust to a metals recovery facility. In 2002, the company transported approximately 18,000 tonnes of its EAF dust for recycling, up from 13,000 tonnes in 2001. This zinc-rich substance will be used in synthetic rubber products and the manufacture of consumer products such as cosmetics and sunscreens.

Dofasco's **management** of secondary materials contributed to the company's ability to reduce costs, to reduce the volume of waste sent to landfill, and to generate revenue for the company in 2002.

environment and energy

SOLID WASTE DISPOSAL
kg/tonne of steel shipped



BLUE BOX
RECYCLED MATERIALS
tonnes

Dofasco is required to provide a full report of its releases to Environment Canada. This chart provides performance data on Dofasco's priority substances. A complete inventory of Dofasco substances can be found on the NPRI website at: www.ec.gc.ca/pdb/npri/

SUBSTANCE NAME	DIRECT RELEASE TO THE ENVIRONMENT TONNES/YEAR		PRIMARY RELEASE		ACTION PLAN TO REDUCE EMISSIONS
	2001	2002	A†	W†	
Ammonia	15	31			Continue Coke Battery leak reduction program and commission new ammonia stills at By-Product plant
Benzene	85	77			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Chromium and its compounds	0.19	0.18			Optimize KOBM Secondary Emissions Control System
Copper and its compounds	0.20	0.20			Optimize KOBM Secondary Emissions Control System
Dioxins and Furans (TEQ*)	0.00000058	0.00000064			Investigate control options through the Canada-wide Standards setting process
Ethylbenzene	0.49	0.43			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Ethylene	18	15			Continue Coke Battery leak reduction program
Hexachlorobenzene	0.00018	0.00018			Investigate control options through the Canada-wide Standards setting process
Hydrochloric Acid	48	52			Build newer and more modern facilities by 2005. Older facilities will be shut down.
Hydrogen Sulfide	25	26			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Lead and its compounds	0.35	0.50			Optimize KOBM Secondary Emissions Control System
Manganese and its compounds	2.1	2.1			Optimize KOBM Secondary Emissions Control System
Mercury	0.094	0.095			Investigate control options through the Canada-wide Standards setting process and Ontario's Switch Out program
Nickel and its compounds	0.04	0.04			Optimize KOBM Secondary Emissions Control System
Polycyclic Aromatic Hydrocarbons	27	20			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Styrene	0.45	0.39			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Toluene	11	9.6			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Xylene	2.2	1.9			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Zinc and its compounds	7.7	7.0			Optimize KOBM Secondary Emissions Control System

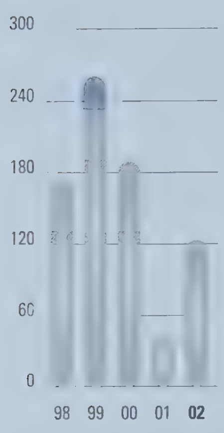
Note: Air release inventories of metals, hydrochloric acid, and hydrogen sulfide for 2001 were updated to reflect new information and improved estimation techniques applied in 2002. The data in this table will be submitted to Environment Canada as part of our National Pollutant Release Inventory reporting requirements

† A – Air W – Water

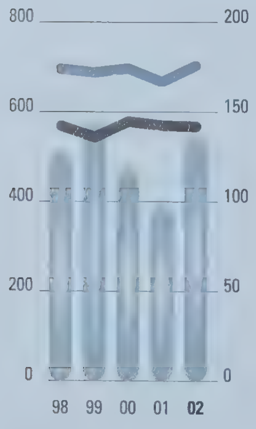
* TEQ – international toxic equivalences

Ammonia (NH_3)	A colourless gas with a sharp irritating odour. Easily soluble in water. Ammonia is a by-product of cokemaking. Ammonia is removed from coke oven gas and is primarily sold as a raw material to the fertilizer industry.
BOF Oxide	An iron-rich by-product recovered from the Basic Oxygen Furnace gas cleaning system for steelmaking operations. A small amount is sold to the cement industry for use in the manufacture of portland cement.
Benzene	A flammable, colourless to light-yellow volatile aromatic hydrocarbon. Benzene is a by-product of Dofasco's cokemaking. Benzene is recovered from coke oven gas and sold to the chemical industry, along with xylene and toluene as raw materials in the manufacture of styrene.
Carbon Dioxide	An odourless, colourless gas. A product of combustion of a fuel containing carbon.
Climate Change	A change in the average weather. This might encompass changes in temperature, precipitation and wind patterns. On a global scale, it refers to changes in the climate of the earth as a whole.
Coke Oven Gas	A gaseous fuel that is generated when volatile materials are driven out of coal during the coking process. Coke oven gas is distributed throughout the plant and used as a fuel to offset purchases of natural gas and oil.
Dioxins and Furans	Dioxins and furans are two closely related families of chlorinated chemicals formed as a by-product of the combustion process. Dioxins and furans require management under the Canadian Council of the Ministers of the Environment Policy for the Management of Toxic Substances.
EAF Dust	An iron- and zinc-rich by-product recovered from the Electric Arc Furnace gas cleaning system. Zinc that is recovered from EAF dust is processed further and used as a curing agent in the synthetic rubber industry and in the manufacture of ceramics.
Gigajoule	A measure of energy. A gigajoule equals 1,000,000,000 joules. A 100-watt light bulb turned on for one second consumes 100 joules. Another measure of energy is British Thermal Units, or BTUs. One BTU equals 1054.8 joules.
Greenbelting	Planting of trees, shrubs and grass to reduce windblown dust from open areas.
Greenhouse Gas	Any one of several heat trapping gases (e.g. water vapour, carbon dioxide, methane) that absorb heat emitted by the earth, thereby retarding the loss of heat to space. Excess greenhouse gases are believed to contribute to climate change.
Municipal-Industrial Strategy for Abatement (MISA)	A provincial regulation governing industrial discharges to water.
Nitrogen Oxides (NOx)	A product of combustion which contributes to the formation of smog and acid rain.
Particulates	Finely divided solid or liquid particles in the air or in an emission. Particulates include dust, smoke and fumes.
Phenol	A derivative of benzene, also called carbolic acid. At Dofasco, phenol is a by-product of cokemaking.
Polycyclic Aromatic Hydrocarbons (PAHs)	PAHs is a term used to collectively describe more than 100 different compounds. PAHs are quantified by the steel industry using a subset of these compounds as identified in the *Environmental Best Practice Manual for Coke Producers*. These compounds are organic substances made up of carbon and hydrogen. At Dofasco, PAHs are released from cokemaking operations. Most are removed from the coke oven gas stream and sold in by-products such as coal tar.
Primary Manufacturing	Includes Cokemaking, Ironmaking, Steelmaking and Hot Rolling processes. At the Primary Manufacturing operations, raw materials are made into steel and then rolled into coils for further processing.
Secondary Material	A non-steel substance or material produced or recovered during the manufacturing of coke, iron and steel. Some common secondary materials include ammonia, BOF oxides and benzene. By-products are an important source of revenue for Dofasco.
Slags	Fused agglomerates that separate in metal smelting and float on the surface of molten metal. Slags are sold and used in a number of different applications including portland cement manufacture, aggregate for asphalt and aggregate for concrete block.
Specific Energy Consumption	The net consumption of energy in a process or group of processes per unit of product output.
Specific Greenhouse Gas Emissions	Total direct greenhouse gas emissions for a process or group of processes per unit of produced output.
Sulphur Dioxide (SO_2)	A colourless, pungent gas formed by the combustion of fossil fuels – has been identified as one cause of acid rain.
Total Process Effluent	The total discharge of ammonia, phosphorus, suspended solids, oil and grease, dissolved organic carbon, phenolics and cyanide.
Total Suspended Solids (TSS)	Solids that either float on the surface or remain suspended in liquids.

CONSOLIDATED
NET INCOME
millions of dollars



AVERAGE REVENUE,
COST AND
GROSS INCOME
Hamilton operations
dollars per net ton



RESULTS OF OPERATIONS

Record shipments at Dofasco's Hamilton and Gallatin Steel facilities combined with strong pricing and excellent operating performance resulted in significantly improved earnings in 2002. These strong results for the year were negatively impacted by non-cash charges relating to Dofasco's investment in Quebec Cartier Mining Company (QCM).

Consolidated net income in 2002 was $122.8 million or $1.63 per common share and includes $113.6 million ($1.51 per share) non-cash charges relating to QCM (see Note 5 to the consolidated financial statements). Excluding the QCM charges, net income was $236.4 million ($3.14 per share), almost six times the $40.3 million ($0.53 per share) restated net income in 2001.

Dofasco's 2002 and 2001 financial statements incorporate a change in the method of accounting for blast furnace reline costs, adopted on a retroactive basis on October 1, 2002. As a result of this change, the 2001 diluted earnings were restated from $0.35 to $0.53 per common share. This change is described in Note 2 (b) to the consolidated financial statements.

Gross income

In 2002, consolidated gross income was a near-record $647.2 million, 70% higher than $381.6 million in 2001.

Segmented analysis of gross income is provided for:

- Steel Operations (which includes the company's Hamilton operations, Dofasco USA, Dofasco de Mexico, Dofasco Marion, Powerlasers, DoSol Galva (DSG) and Dofasco's share of Baycoat, DNN Galvanizing, Sorevco and Wabush Mines);
- Gallatin Steel Company; and
- QCM

Note 17 to the consolidated financial statements provides further segmented information for each of these three reporting segments.

Steel Operations

Dofasco's Steel Operations segment had one of its most successful years ever in 2002, earning gross income of $585.7 million, an increase of 54% over $380.0 million in 2001. The significant improvement was primarily due to continued strong performance in Hamilton.

Sales

Record hot rolling and finishing production and strong demand enabled Dofasco's Hamilton operations to ship a record 4,116,000 tons in 2002, an increase of 11% or 407,000 tons over 2001 shipments. The increase in production capacity following the completion of the Hot Mill Improvement Program in late 2001 enabled the Hamilton operations to ship more than one million tons in each of the last three quarters of the year.

Steel Operations sales increased by 18% or $493.0 million in 2002 to $3,138.7 million from $2,646.0 million in 2001 due to the higher shipments and selling prices and a higher value sales mix.

The average revenue per ton shipped increased by $36, or 5.4%, in 2002 due to higher selling prices throughout the year and to increased shipments to the automotive market. The increase also reflects an overall improvement in the product sales mix and a higher proportion of prime products resulting from quality improvements achieved through the successful completion of various capital projects in recent years.

Cost of sales
A 12.7% increase in cost of sales to $2,553.0 million in 2002 from $2,266.0 million in 2001 was largely a result of the higher shipments. Costs were also affected by an increase in the performance-based component of the company's total compensation program (profit sharing and variable compensation pay), as well as higher prices for scrap, electricity and coal.

Despite these increases, the cost per ton of flat rolled and tubular products shipped declined slightly from 2001 due largely to record production levels.

Gallatin Steel
Gallatin Steel reported excellent results in 2002 driven by record production and shipment levels and a significant increase in U.S. hot rolled market prices. Dofasco's share of Gallatin's gross income in 2002 was a record $71.5 million compared to a loss of $5.7 million in 2001.

Sales
Gallatin shipped 1,422,000 tons in 2002 compared to its previous high of 1,332,000 tons shipped in 2001. Dofasco's share of Gallatin's sales revenue was $334.2 million, an increase of $99 million or 42% over 2001. Gallatin's ability to capitalize on rising U.S. hot rolled selling prices contributed to a U.S. $71 increase in the average realized revenue per ton shipped in 2002.

Cost of sales
Dofasco's share of Gallatin's cost of sales in 2002 was $262.7 million, an increase of $21.8 million from $240.9 million in 2001. The 9% increase was mainly due to the higher shipments and, to a lesser extent, higher scrap prices that also accounted for a slight increase in Gallatin's average cost per ton shipped.

Quebec Cartier Mining
QCM posted poor results again in 2002 due to weak iron ore prices and shipments that remain well below historical levels.

In response to these difficult market conditions, QCM implemented a new mining plan at the end of the year. An assessment of the recoverability of the carrying value of QCM's long-lived assets resulted in a non-cash writedown (see Notes 2(a) and 5 to the consolidated financial statements).

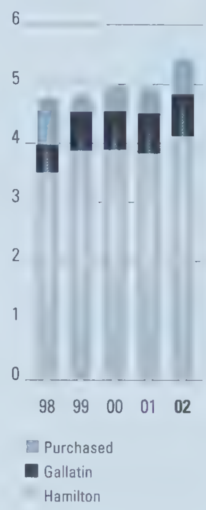
Dofasco's share of QCM's gross income in 2002 was a loss of $15.1 million (net of the $24.3 million non-cash charge), compared to income of $7.3 million in 2001.

Sales
Dofasco's share of QCM's revenue was $241.6 million in 2002, up from $199.1 million in 2001, primarily reflecting higher shipments. Dofasco's share of QCM's shipments was 6.1 million tonnes, well below historical levels but still an increase of 1.1 million tonnes, or 22%, from low 2001 levels that were negatively impacted by a labour disruption.

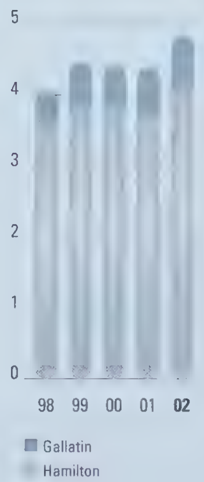
Cost of sales
Dofasco's share of QCM's costs in 2002 was $256.7 million, an increase of $64.9 million from $191.8 million in 2001. The increase was a result of higher shipments and a $25 million write-off of deferred pension expenses (see Note 5 to the consolidated financial statements).

Dofasco Inc. consolidated results
Depreciation and amortization
Depreciation expense increased in 2002 to $274.8 million from $254.7 million in 2001. The increase is mainly due to accelerated depreciation in Hamilton on the oxygen steelmaking vessel that was replaced in December and on the No. 3 Blast Furnace that will be idled in 2004, after the completion of the rebuild of No. 2 Blast Furnace. Depreciation expense also increased due to the start-up of operations at Dofasco de Mexico.

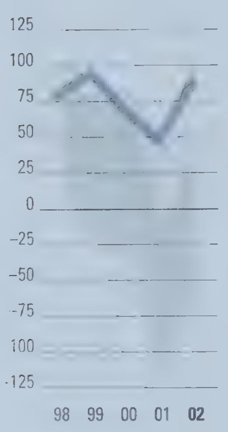
STEEL PRODUCTION
millions of net tons



STEEL SHIPMENTS
millions of net tons



EARNINGS BEFORE INCOME TAXES PER SHIPPED TON
dollars per ton



Dofasco Hamilton
Minimills
Other integrated mills

Impairment of long-lived assets

An assessment of the recoverability of the carrying amount of QCM's long-lived assets was conducted at year-end. The assessment was required in light of a revised mining plan which included a reduction in annual mine production and changes to other key assumptions. As a result of the assessment, Dofasco's consolidated results include a $118.5 million non-cash impairment writedown of its share of QCM's long-lived assets (see Note 2(a) to the consolidated financial statements).

Interest on long-term debt

Interest expense decreased to $57.4 million in 2002 from $59.3 million in 2001. The impact of scheduled debt repayments at Dofasco, QCM and DNN was partly offset by a full year's interest on the $125 million of 7.55% Medium Term Notes issued in October of 2001.

Interest and other income

Interest and other investment income totalled $6.9 million, an increase of $1.2 million from 2001, primarily due to higher cash balances in Hamilton throughout the year.

Foreign exchange (gain) loss

The foreign exchange loss in 2002 was $4.1 million partly due to the weakening of the Mexican peso and the U.S. dollar relative to the Canadian dollar during the year. In 2001, Dofasco recorded a foreign exchange gain of $0.4 million.

Income taxes

Consolidated income tax expense in 2002 was $69.1 million on pre-tax income of $199.3 million, an effective tax rate of 34.7%. This compares with an effective tax rate of 44.9%, or $33.1 million, on 2001's pre-tax income of $73.7 million.

The effective tax rate in 2001 was higher because a tax benefit was not recorded on losses at Gallatin Steel and Dofasco de Mexico. The lower effective tax rate in 2002 was due to no tax expense being recorded on income from U.S. operations, primarily Gallatin. The decrease was partly offset because the QCM asset impairment writedown was not fully tax effected.

Cash flow

Operating activities

Cash provided from operating activities before changes in non-cash components of working capital was $526.9 million in 2002, almost double the $273.5 million generated in 2001. The significantly improved cash flow in 2002 resulted from higher net income of $122.8 million (2001 – $40.3 million), adjusted for non-cash income and expense items of $404.1 million (2001 – $233.2 million).

Non-cash items in 2002 include the $118.5 million QCM asset impairment writedown; $274.8 million of depreciation and amortization; $51.5 million of employee future benefits expenses relating to the non-cash component of pensions and other benefit plans; and the $25.0 million write-off of the QCM deferred pension expense. Also included is a $65.2 million decrease in future income tax liabilities primarily resulting from the writedown of QCM's assets and book depreciation being in excess of tax depreciation during the year.

Changes in working capital

Cash provided by changes in non-cash components of working capital in 2002 was $32.4 million compared to $7.8 million in 2001.

Accounts receivable

Consolidated accounts receivable increased by $38.6 million in 2002, primarily due to higher sales revenue in November and December of 2002 compared with the same period in 2001.

Inventories

Consolidated inventories increased by $86.0 million in 2002. Inventories at Steel Operations increased by $96.5 million, reflecting higher finished goods inventories in Hamilton and at Dofasco USA. As well, higher quantities of purchased slabs relative to 2001 were required because of the increase in Hot Mill production and the replacement of the oxygen steelmaking vessel in December. QCM reduced inventories by $10.5 million in 2002 to a more normal seasonal level.

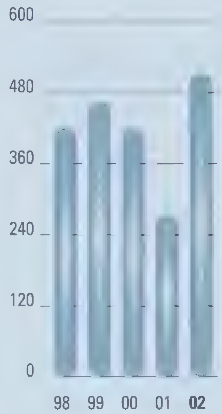
Accounts payable

An increase in consolidated accounts payable, primarily due to increased profit sharing and variable compensation in Hamilton, generated cash of $77.6 million in 2002. Accounts payable at Dofasco's joint ventures and subsidiaries also increased partly due to the start up of Dofasco Marion and the ramp-up of Dofasco de Mexico.

Income and other taxes payable

Higher income and other taxes payable provided cash of $79.7 million in 2002. The increase is largely due to a higher income tax liability at Hamilton. The final tax installment, payable in early 2003, is higher than in 2001 as a result of the higher taxable income in 2002.

CASH DERIVED FROM OPERATIONS
Before changes in working capital
millions of dollars



Investment activities

Capital expenditures

Cash used for capital expenditures in 2002 was $139.0 million, down from $203.9 million in 2001. The decrease reflects the completion of the Hot Mill Improvement Program in Hamilton and the construction of the Dofasco de Mexico tube mill in 2001.

Capital expenditures are expected to increase significantly in 2003 due to the commencement of the Finishing Division Improvement Program in Hamilton.

Financing activities

Bank borrowings of joint ventures

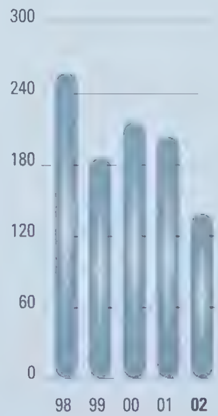
Dofasco's share of bank borrowings at its joint ventures declined by $15.8 million in 2002, primarily as a result of repayments at Gallatin.

Long-term debt

Consolidated long-term debt balance decreased by $90.9 million in 2002 due to scheduled repayments at Dofasco, DSG, QCM and DNN.

At December 31, 2002, QCM was in breach of certain of the financial covenants of its long-term debt agreements. As per the debt agreements, the lenders may now request payment upon demand. Consequently, the bank term loan of $45 million has been reclassified as a current liability on the consolidated balance sheet.

CAPITAL EXPENDITURES
millions of dollars



Common shares issued

Dofasco received $5.2 million in cash on the issuance of common shares under the employee stock option plans in 2002, compared to $0.8 million in 2001.

Dividends

In 2002, Dofasco paid $81.6 million in dividends, largely unchanged from the $81.5 million paid in 2001. Preferred share dividends accounted for $0.6 million of this total in both 2002 and 2001.

The quarterly common share dividend was $0.27 per share per quarter in 2002 and in 2001.

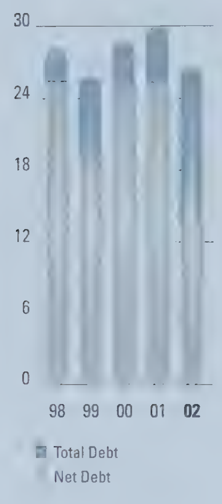
Cash and liquidity

Cash and cash equivalents

As a result of the above items, Dofasco's consolidated cash position, including cash equivalents, increased by $233.7 million in 2002 to $402.6 million from $168.9 million at the

beginning of the year. Approximately $170 million of cash was used in the first quarter of 2003 to pay the company's obligations related to performance-based compensation (including profit sharing) and the final installment of 2002 income taxes. Dofasco remains well-positioned to fund future planned capital expenditures, including the Finishing Division Improvement Program in Hamilton, the first phase of which is scheduled to begin in 2003, at an estimated cost of $384 million.

DEBT TO DEBT PLUS EQUITY RATIO
% as at December 31



Debt ratio

At December 31, 2002, Dofasco's ratio of total debt to total debt plus equity was 26.6%, compared to 30.0% at December 31, 2001. After deducting cash reserves, the ratio of net debt to net debt plus equity was 13.2% at the end of 2002, compared to 25.3% a year earlier.

The decrease in the debt ratios is primarily attributable to the higher cash balance at the end of 2002 and the scheduled debt repayments made during 2002 at Dofasco, DSG, DNN and QCM.

Available credit lines

Dofasco has credit facilities comprised of a $100 million one-year revolving line expiring November 30, 2003 and a $150 million three-year revolving line expiring December 31, 2005. At December 31, 2002, none of these revolving lines had been used.

Dofasco's joint ventures have lines of credit totalling $113 million of which $60 million was available at December 31, 2002.

Commitments

All joint venture debt is non-recourse to Dofasco except for a guarantee provided on the DNN debt of $48.5 million. The corporation also has $32.0 million in letters of credit outstanding in support of QCM's credit facility and equipment leases.

LABOUR RELATIONS

Dofasco's positive labour relations history is based on treating people fairly. Employees throughout the organization share in the company's financial success through participation in various forms of profit sharing, gain sharing and variable compensation plans.

Dofasco respects the right of all employees to choose or refuse union representation, although our preference is to deal directly with our employees rather than through a third party. Employees at the company's Hamilton operations and at Baycoat, DNN Galvanizing, Gallatin Steel and Powerlasers are not unionized while most employees at Dofasco Marion, Dofasco de Mexico, QCM, Sorevco and Wabush Mines are represented by labour unions.

During 2001, Local 772 of the International Union of Operating Engineers (IUOE) applied to the Ontario Labour Relations Board (OLRB) to represent a potential bargaining unit of stationary engineers and operators at Dofasco's Hamilton operations. In May of 2002, the OLRB dismissed the IUOE's application on the basis that the union did not have signed membership cards from 40% of the proposed bargaining unit, the minimum required to have a vote.

On March 3, 2003, the National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW – Canada) applied to the OLRB to represent all of Powerlasers' Concord, Ontario employees except supervisors, management and office and clerical staff. On March 10, the affected employees voted against union representation.

MARKET OUTLOOK

Canadian and U.S. economies

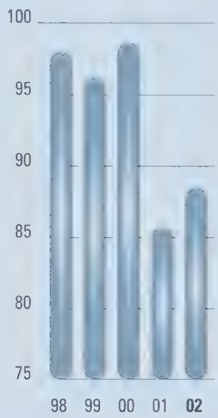
Despite slow growth at the end of the year caused by declining consumer confidence and reduced consumer spending, the Canadian and U.S. economies grew by approximately 3.2% and 2.4%, respectively, in 2002. In 2003, the economies of the two countries are

expected to grow at about the same rates as in 2002, although this growth may be delayed somewhat by geopolitical uncertainty.

In Canada, a positive policy environment is expected to continue to spur economic growth. Previous tax cuts, a cautious approach to interest rate increases on the part of the Bank of Canada and the record level of job creation in 2002 should continue to support consumer spending. Although housing starts are expected to decline somewhat from their high level in 2002, demand for household goods and particularly appliances will remain very strong. Overall consumer spending is expected to increase at a faster rate this year than in 2002. Business investment is also expected to show stronger growth in 2003, as recovering corporate profits should result in increased non-residential investment spending. The recovering U.S. economy should support increased Canadian exports from the dip experienced in the final quarter of 2002.

A potential conflict with Iraq continues to cloud the near-term outlook for the U.S. economy, although there are continuing signs that its recovery remains intact. Increased employment, higher non-automotive retail sales and a good recovery in industrial production were reported for January, supporting increased manufacturing activity. Despite currently low consumer confidence, consumer spending is expected to continue to be supported by low interest rates in the near term and by growth in employment and personal incomes. While housing starts are expected to decline somewhat in 2003, growth in corporate profits should generate increased business spending on structures by the second half of the year.

NORTH AMERICAN FLAT ROLLED STEEL DEMAND
millions of net tons



Flat rolled steel

Flat rolled steel demand in Canada increased by 5.4% in 2002 over weak 2001 levels, while the increase in the U.S. was a more modest 3%. However, for the second half of the year alone, demand will be about 9% higher in the U.S. and 6% in Canada compared to the same period in 2001. In both countries, imports rose more than 40% in the second half of the year compared to the first half, contributing to significantly higher customer inventories heading into 2003.

Short-term demand for flat rolled steel will be dampened as these inventories are worked down over the first few months of 2003. For the year in total, demand is expected to increase by approximately 2%, although there is downside risk associated with the situation in Iraq.

Automotive

2002 was a strong year for light vehicle sales in Canada and the U.S., in large part due to attractive purchase incentives. The strong economy in Canada contributed to a 9.2% increase in light vehicle sales, whereas U.S. sales declined by almost 2%. Although total sales were down by almost 1% from 2001, it was still the third best year ever, off only 2.1% from the peak in 2000. Sales of imported light vehicles grew 8.4%, while sales of domestically produced vehicles declined by 3.1%.

In 2003, light vehicle sales are expected to decline by 2% to 3% as the costs of sustaining financial incentives may become unattractive given the decreasing impact on sales. Sales could also be further negatively impacted by as much as 5% if a protracted war in Iraq occurs. A continued increase in imported vehicle sales in 2003 will result in a larger decline in domestic vehicle sales. The recent number of new SUV and "crossover" vehicle models is expected to result in a market share gain for light trucks from cars.

Light vehicle production in Canada and the U.S. grew by 6.8% in 2002 to meet continued strong demand and to rebuild inventories that had dropped below reasonable levels. With inventories restored to reasonable levels at the end of the year, vehicle production for 2003 is expected to more closely match sales, down by about 3% to 4%.

Construction

In 2002, residential construction activity soared while non-residential construction activity faltered. In 2003, the construction sector as a whole is expected to show modest growth as housing starts remain near historically high levels and non-residential construction activity begins to recover.

Residential

Housing activity ended on a high note in Canada in 2002, reaching the highest level of yearly starts since 1989. Residential construction starts grew by approximately 25% in 2002 over 2001 to approximately 203,000 units. The growth was stimulated by low mortgage rates, strong buyer confidence, growing employment, low inventories of new units for sale or rent, a tight resale market and pent up demand that resulted from the dismal housing activity in the mid-1990s. While residential construction starts are expected to decline by 5% in 2003, they will continue to exceed demographic growth alone.

U.S. residential construction markets also grew in 2002, with housing starts 6% higher than in 2001. In 2003, U.S. housing starts are expected to remain at a historically strong level, approximately 3% below 2002.

Non-residential

In 2002, non-residential construction spending in Canada declined by 4% from 2001, primarily due to the weakness in the commercial and industrial sectors. These sectors experienced a decline as high office vacancy rates, due to lagging cyclical weakness, reduced the demand for new office construction. In 2003, commercial and industrial construction demand is expected to grow along with the economy, leading to an expected 5% increase in non-residential construction spending.

The situation in the U.S. is similar to that in Canada. Non-residential construction spending declined by 7% in 2002 but is expected to increase by 3% in 2003.

Manufacturing

Appliances

Appliance shipments in 2002 grew by 12% in Canada and 6.5% in the U.S., fuelled by strong residential construction activity.

In 2003, appliance shipments are expected to grow by approximately 2%. Appliance purchases generated by replacement demand, stimulated by improving consumer confidence positively impacting home improvement activity, will more than offset that from declining housing starts.

Electrical machinery

The electrical machinery sector in North America closely follows general manufacturing activity and is expected to show modest improvement in 2003 over 2002 as the economy continues to strengthen.

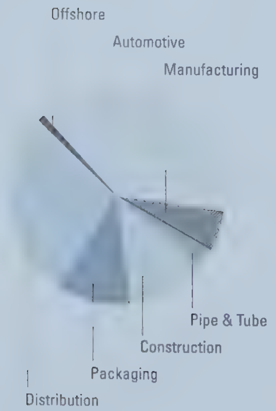
Pipe and tube

Canadian pipe and tube production declined by 11% in 2002, the second consecutive year of declining production volumes. Pipe and tube shipments declined by 8% with export levels unchanged and domestic shipments suffering the full impact.

Oil and gas prices fluctuated throughout 2002, starting off low and ending high. Low commodity prices early in 2002 and a sluggish economy resulted in reduced drilling activity in Canada and the U.S., contributing to a 23% decline in shipments of oil country tubular goods by Canadian pipe producers.

For 2003, high commodity prices, a cold winter, supply concerns and a modest expansion in the economy are expected to result in increased activity in the oil and gas sector. Drilling activity is expected to return to 2001 levels, which would represent an increase of 24% over 2002.

2002 MARKET MIX
Hamilton operations



Investment in the Canadian energy sector may be impacted by concerns over the implementation plan to comply with the Kyoto Protocol. As a result, the anticipated increase in shipments into this sector will be largely due to drilling activity increases.

Mechanical tubing shipments in 2002 remained relatively unchanged as strong demand from the automotive market was offset by reduced demand in non-automotive applications.

Structural tubing demand remained low in 2002. However, the anticipated increase in non-residential building activity is expected to result in increased shipments of structural tubing by Canadian mills in 2003.

Overall, pipe and tube production in Canada is expected to grow by approximately 8% in 2003.

Consumer packaging

Tinplate consumption in North America increased by 1% in 2002, slightly higher in Canada than in the U.S. Growth was higher than anticipated due to sustained consumer demand for packaged goods, a good food-packing season made possible by favourable weather conditions and the need to replenish low finished-can inventories at the end of 2001.

Looking ahead, stable tinplate demand is expected in North America in 2003.

Industrial packaging

Steel shipments to Canadian industrial packaging markets grew substantially in 2002 compared to 2001, reflecting an increased demand for steel drums and pails. Canadian industrial packaging manufacturers benefited from a strong domestic manufacturing environment fuelled by record low interest rates, strong growth in the labour market and higher levels of disposable income.

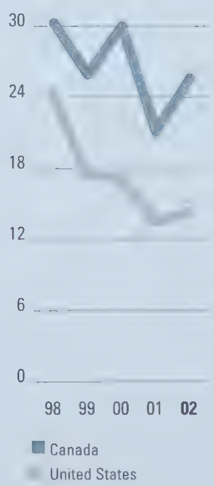
Growth in 2003 will be modest, a result of an expected increase in manufacturing activity and a stronger oil sector.

Distribution

Shipments from Canadian service centres increased by 5% in 2002. However, Canadian steel producer shipments to this segment increased by less than 2% as the growth was largely supported by imported steel.

In 2003, Canadian service centre activity will be negatively impacted by anticipated declines in automotive and housing activity. However, the expected increase in non-residential construction activity should support increased demand in office furniture and other related markets supplied by service centres. Canadian service centre shipments are expected to increase by 2% in 2003, in line with overall flat rolled growth.

FLAT ROLLED STEEL IMPORTS
% of demand



RISKS AND UNCERTAINTIES

Dofasco's performance may be affected by a number of factors that relate to the level of activity and stability both in the economy in general and in the steel industry in particular.

Steel trade

The supply of steel in North America and its impact on price is affected both by global steel industry capacity and by the level of overseas imports into North America.

Dofasco is structured to compete successfully against fairly traded steel imports. However, high volumes of low-priced steel imports have historically entered North American markets. Many of those imports were "dumped" – traded in violation of international trade rules which prohibit selling a product in a foreign market at a price below either the cost of production or the selling price in the producer's home market.

A long-term solution to unfair international steel trade can best be achieved through a reduction in worldwide steel capacity. While market forces can be expected to contribute to some of the necessary plant closures, coordinated international government action is necessary to accomplish the reductions necessary to solve the problem. The Canadian steel industry will continue working closely with the Government of Canada towards this goal.

In the absence of a long-term solution, Dofasco, Gallatin Steel and other members of the Canadian and U.S. steel industries have sought appropriate domestic trade remedies to address the issue on a short-term basis.

In 2001, Dofasco appealed the Canadian International Trade Tribunal's (CITT) ruling that imports of corrosion-resistant (galvanized) steel from seven countries and cold rolled steel from nine countries had not injured the domestic steel industry. In October 2002, the Federal Court of Appeal denied Dofasco's appeal of the CITT's ruling on corrosion-resistant steel. The Court will rule on Dofasco's cold rolled appeal later this year.

In 2002, the Government of Canada directed the CITT to initiate a safeguard investigation into increased imports of nine classes of steel products. In July, the CITT ruled that the Canadian steel industry had either been seriously injured or threatened with serious injury in five of the nine product classes, including cold rolled sheet and coil. In August, the CITT recommended a tariff-rate quota system be implemented on imports of four of the five products, including cold rolled, and that remedies apply to imports from the United States. The industry has requested that a straight tariff be applied on offshore imports of the affected products and that imports from the U.S. and Mexico not be subject to any remedy, in recognition of the integrated North American steel market. The government has not yet announced the remedies it will implement.

Government authorities from Canada, the U.S. and Mexico have agreed to work together to seek greater openness in the North American steel market, demonstrating the commitment of the three governments to act against distortions in the NAFTA steel market. Dofasco supports this initiative as a necessary one to more formally recognize the integrated nature of the North American steel industry.

Electricity

Dofasco's steelmaking operations in Hamilton and at Gallatin Steel consume large quantities of electricity. Both facilities employ risk management approaches in purchasing electricity that include appropriate portfolios of fixed price contracts, spot price exposure and operational strategies.

Dofasco's Hamilton operation is one of the largest single-site consumers of electricity in Ontario. In anticipation of the deregulation of the Ontario electricity market, Dofasco designed a sourcing strategy to respond to the evolving nature of the deregulated market and to mitigate the impact of potentially higher and more volatile pricing. On May 1, 2002, the Ontario electricity market was deregulated as scheduled, unbundling energy (commodity) and regulatory (including transmission, distribution and debt reduction) costs.

Supply shortfall and weather-related high levels of power demand contributed to significant volatility and high prices in the Ontario electricity market in 2002. In November, as a result of extensive negative consumer feedback, the Government of Ontario re-regulated the electricity market for residential consumers and other designated small consumers. This included fixing their electricity price until 2006, issuing rebates, and proposing incentives for improved efficiencies and increased generation supply in the market.

Electricity pricing remains variable for mid- to large-sized electricity consumers. The provincial government has initiated a stakeholder consultation process to address pricing, rebates and incentives for efficiency and generation initiatives for these users. Dofasco is actively participating in this process.

Other energy sources

All Dofasco operations are susceptible to the fluctuations that can occur in the market prices of other energy sources, such as coal, oil and natural gas. Dofasco manages its price and availability risk through a portfolio of short- and long-term supply agreements and multiple sources where appropriate.

Dofasco also reduces the amount of outside fuel gases that need to be purchased by maximizing the use of recycled by-product fuel gases (such as coke oven and blast furnace gases).

Raw materials

Dofasco's two largest raw material requirements are iron ore and scrap steel.

Dofasco has secure sources for its Hamilton iron ore requirements, primarily from mines in Quebec and Newfoundland in which the company has ownership interests.

Other sources of iron ore are readily available, both in North America and from abroad. Dofasco pays a competitive price for its iron ore, as industry prices are set annually on a global basis.

Dofasco and Gallatin Steel have viable long-term sources of steel scrap, which are subject to the month-to-month price fluctuations that characterize scrap markets. These fluctuations are caused by overall availability, market selling prices of steel and general economic conditions.

Quebec Cartier Mining Company (QCM)

At December 31, 2002, QCM, which is 50% owned by Dofasco, was in breach of certain of the financial covenants of its long-term debt agreements. As per the debt agreements, the lenders may now request payment upon demand. Consequently, QCM's bank term loan of $45 million has been reclassified as a current liability on the consolidated balance sheet.

In December 2002, an Agreement in Principle was reached between QCM, Dofasco, CAEMI of Brazil (QCM's co-owner) and third parties to undertake a significant restructuring of QCM, designed to fund the further development of its mine and allow QCM to execute a multi-year mining plan. The agreement, which is subject to various conditions being satisfied with QCM's bankers and other stakeholders, will result in a significant reduction in Dofasco's ownership position in QCM and limit Dofasco's support of future mine development to no more than $34.5 million between now and 2010.

As part of the restructuring, QCM undertook an assessment of the carrying value of its fixed and other capital assets. This resulted in QCM recording an asset impairment writedown at the end of 2002. Dofasco's share of this writedown is reflected in the consolidated financial statements. At December 31, 2002, Dofasco's investment in QCM was $35 million. Dofasco also has letters of credit outstanding totalling $32 million in support of QCM's credit facility and equipment leases.

Steel industry competition

The nature of competition is undergoing fundamental change in North America, as steelmakers are able to emerge from bankruptcy protection with significantly lower cost structures. Dofasco's recent and planned investments are intended to maintain and increase the company's competitiveness by lowering costs and increasing the proportion of high value-added products in its sales mix.

Success in the steel industry is dependent on a company's ability to differentiate itself in the market, often by developing or accessing technological innovation. As the industry continues to consolidate on a worldwide basis, companies may choose to limit access to technological developments in the future. Dofasco's reputation as an innovator, its longstanding relationships with other recognized industry leaders and its financial strength have enabled it to continue to develop and access world-class technology.

Economic cycles

The North American steel industry is characterized by cycles in supply and demand that relate to the general economic environment and to the level of manufacturing activity in several key industries, such as automotive, construction, packaging, consumer goods, and oil and gas. The financial performance of North American steel companies, including Dofasco, typically suffers during the troughs of these cycles.

Dofasco's strong market positioning, its strategy of maximizing the proportion of value-added steel products in its mix and of delivering industry-leading customer service while maintaining a focus on earning the cost of capital over a full business cycle, has successfully mitigated the impact of these economic cycles.

Reliance on specific industrial sectors

The automotive industry is Dofasco's largest market segment. Dofasco's customer relationship strategy is designed to ensure that the company remains a supplier of choice to the North American automotive industry. Strategic investments such as DoSol Galva, Powerlasers, the two tube mills in Hamilton and the tube mills and steel processing facilities at Dofasco de Mexico in Monterrey, Mexico and Dofasco Marion in Marion, Ohio maintain and enhance Dofasco's position as a leading automotive steel supplier.

Foreign exchange rate and commodity price risk

Dofasco and some of its joint ventures utilize financial instruments to manage the risk associated with fluctuations in foreign exchange rates and commodity prices. Dofasco believes that its exposure to credit and market risks for these financial instruments is negligible. Dofasco does not hold nor issue derivative financial instruments for trading or for speculative purposes.

Environment

Dofasco and its subsidiaries and joint ventures maintain close contact with environmental authorities and comply with all laws and regulations relating to the environment, including those that govern emissions and discharges from operating facilities. In Hamilton, Dofasco has a voluntary Environmental Management Agreement with the Canadian and Ontario governments that generally surpasses the requirements of current legislation.

Government ratification of the Kyoto Protocol in 2002 has obligated Canada to meet target reductions in greenhouse gas (GHG) emissions by 2010. The government is now consulting with stakeholders to develop an implementation plan to address how individual companies and industries will share in that obligation. Since 1990, Dofasco has reduced GHG emissions by 22%, more than Canada's national Kyoto target of a 6% reduction. The cost of any future obligation on Dofasco and other Canadian steelmakers to further reduce GHG emissions or to "buy" emission credits from third parties is dependent on the degree to which the implementation plan recognizes early actions such as those taken by Dofasco and the Canadian steel industry. While the government has indicated that it will not disadvantage companies or industries that have taken early action, Dofasco is working closely with them to develop an appropriate plan for the steel industry, while maintaining its commitment to continuous improvement in environmental performance.

Dofasco's Management's Discussion and Analysis includes statements and expectations about future performance that are based on assumptions, uncertainties and management's best estimates of future events. As a result, readers are cautioned that actual results may differ from expected results.

consolidated statements of income and retained earnings

for the years ended December 31 (in millions except per share amounts)	2002	2001 (restated — note 2)
Income		
Sales	**$ 3,583.7**	$ 2,962.5
Cost of sales (before the following item)	**2,885.8**	2,562.3
Employees' profit sharing (note 13)	**50.7**	18.6
	2,936.5	2,580.9
Gross income	**647.2**	381.6
Depreciation and amortization	**274.8**	254.7
Impairment of long-lived assets (note 2)	**118.5**	—
Operating income	**253.9**	126.9
Interest on long-term debt	**57.4**	59.3
Interest and other income	**(6.9)**	(5.7)
Foreign exchange loss (gain) (note 2)	**4.1**	(0.4)
Income before income taxes	**199.3**	73.7
Income tax expense (note 12)	**69.1**	33.1
	130.2	40.6
Minority interest	**7.4**	0.3
Net income	**$ 122.8**	$ 40.3
Earnings per Common Share (note 9)		
Basic	**$ 1.63**	$ 0.53
Diluted	**$ 1.62**	$ 0.53
Dividends Declared per Common Share	**$ 1.08**	$ 1.08
Retained Earnings		
Opening balance as previously reported	**$ 966.0**	$ 1,020.8
Accounting changes (note 2)	**46.8**	36.7
Opening balance as restated	**1,012.8**	1,057.5
Net income	**122.8**	40.3
	1,135.6	1,097.8
Dividends declared:		
Preferred shares	**0.6**	0.6
Common shares	**81.1**	80.9
	81.7	81.5
Ending balance	**$ 1,053.9**	$ 1,016.3

See accompanying notes to consolidated financial statements.

December 31 (in millions)	2002	2001 (restated — note 2)
Current Assets		
Cash and cash equivalents	**$ 402.6**	$ 168.9
Accounts receivable	**351.8**	313.2
Inventories (note 3)	**934.5**	848.5
Income and other taxes receivable	**—**	19.9
Future income tax assets (note 12)	**4.1**	3.3
	1,693.0	1,353.8
Fixed and Other Assets		
Fixed assets (notes 2 & 4)	**1,758.8**	1,984.3
Future income tax assets (note 12)	**44.9**	45.7
Other assets (notes 2 & 6)	**88.4**	140.3
	1,892.1	2,170.3
Total assets	**$ 3,585.1**	$ 3,524.1
Current Liabilities		
Bank borrowings of joint ventures (note 8)	**$ 48.2**	$ 64.2
Accounts payable and accrued charges	**379.8**	295.6
Income and other taxes payable	**56.9**	—
Dividends payable	**20.4**	20.4
Current requirements on long-term debt (note 8)	**145.4**	93.0
	650.7	473.2
Long-term Liabilities		
Long-term debt (note 8)	**499.2**	643.2
Employee future benefits (note 14)	**378.9**	344.3
Other long-term liabilities	**18.8**	12.6
	896.9	1,000.1
Future Income Tax Liabilities (note 12)	**96.9**	160.6
Minority Interest	**29.7**	22.3
Shareholders' Equity		
Preferred shares (note 9)	**11.6**	11.9
Common shares (note 9)	**798.6**	793.5
Contributed surplus (note 9)	**2.7**	—
Retained earnings	**1,053.9**	1,016.3
Currency translation adjustment (note 16)	**44.1**	46.2
	1,910.9	1,867.9
Total liabilities and shareholders' equity	**$ 3,585.1**	$ 3,524.1

See accompanying notes to consolidated financial statements.

On behalf of the Board:

J T Mayberry

John T. Mayberry
DIRECTOR

Donald A. Pether
DIRECTOR

for the years ended December 31 (in millions)	2002	2001 (restated — note 2)
Cash Provided from (Used for):		
Operating Activities		
Net income	$ 122.8	$ 40.3
Add (deduct) items not affecting cash		
Depreciation and amortization	274.8	254.7
Impairment of long-lived assets	118.5	—
Future income taxes	(65.2)	(28.4)
Employee future benefits	51.5	5.5
Stock-based compensation	9.1	2.0
Other	15.4	(0.6)
	526.9	273.5
Add (deduct) changes in non-cash components of working capital		
Accounts receivable	(38.7)	44.4
Inventories	(86.2)	6.9
Accounts payable and accrued liabilities	77.6	(38.8)
Income and other taxes recoverable	79.7	(4.7)
	559.3	281.3
Investment Activities		
Capital expenditures	(139.0)	(203.9)
Other investments	(3.4)	(1.6)
	(142.4)	(205.5)
Financing Activities		
(Decrease) increase in bank borrowings	(15.8)	19.6
Issue of long-term debt	—	125.0
Repayment of long-term debt	(90.9)	(99.8)
Equity contribution by minority interest	—	1.6
Redemption of preferred shares	(0.3)	(0.3)
Common shares issued	5.2	0.8
Dividends paid	(81.6)	(81.5)
	(183.4)	(34.6)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0.2	0.6
Cash and Cash Equivalents		
Increase for year	233.7	41.8
Balance at beginning of year	168.9	127.1
Balance at end of year	$ 402.6	$ 168.9
Cash Payments Made for		
Interest	$ 62.1	$ 61.0
Income taxes	$ 57.0	$ 60.3

See accompanying notes to consolidated financial statements.

1. Accounting policies

The consolidated financial statements for 2002 and 2001 have been prepared by the Corporation in accordance with Canadian generally accepted accounting principles and are within the framework of the accounting policies summarized below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation, its subsidiaries and the proportionate share of the assets, liabilities and results of operations of its joint venture activities. The remaining long-term investments are carried at cost.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash on deposit and term deposits with remaining maturities of less than three months at acquisition.

(c) Inventories

Inventories are valued at the lower of average cost and net realizable value.

(d) Fixed assets

Fixed assets are recorded at their historical cost.

Depreciation is computed generally by the straight-line method applied to the cost of assets in service at annual rates based on their estimated useful lives, as follows:

Buildings	2.5 to 5%
Equipment and machinery	5 to 25%

(e) Impairment of long-lived assets

Impairment losses on long-lived assets are measured as the amount by which the carrying value of an asset or asset group exceeds its fair value, as determined by the discounted future cash flows of the asset or asset group.

(f) Pre-production, development and stripping expenditures

Pre-production and development expenditures to bring mining sectors into production are deferred and amortized on a straight-line basis over a period relating to the individual economic residual life of the mining sector.

Stripping expenditures that are incurred to extend mine life are deferred and amortized over the extended mine life. If it is determined that an investment in deferred stripping is not recoverable over the productive life of the property, the unrecoverable portion is charged to earnings in the year such determination is made.

(g) Revenue recognition

Revenue from the sale of manufactured products is recognized when the price is fixed or determinable, collectability is reasonably assured, and upon acceptance by and shipment to customers.

(h) Income taxes

The Corporation follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

(i) Translation of foreign currencies

Foreign currency monetary assets and liabilities of domestic operations are translated at year-end exchange rates while foreign currency revenues and expenses are translated at average exchange rates prevailing during the year.

Dofasco de Mexico, Dofasco USA and Dofasco Marion are classified as integrated foreign operations. Consequently, their monetary assets and liabilities have been converted to Canadian dollars using the exchange rate in effect at the balance sheet date. All other assets and liabilities are converted at historical rates. Revenues and expenses are translated at the average exchange rates for the year except depreciation, which is translated at the historical rate applicable to the related asset.

Dofasco's other foreign operations are classified as self-sustaining. Consequently, their assets and liabilities are translated to Canadian dollars using the year-end exchange rates. Revenues and expenses are translated at the average rates during the year. Exchange gains or losses on translation of the Corporation's net investment in the operations are deferred as a separate component of shareholders' equity (currency translation adjustment).

The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction in the Corporation's net investment in the operations that gave rise to such exchange gains and losses.

Gains and losses on foreign currency liabilities which have been identified as a hedge against exposure on future foreign currency revenues, are deferred and matched to the future revenue stream, provided there is reasonable assurance that the hedge is and will continue to be effective.

(j) Employee benefit plans

The cost of pension and post-employment benefits (including medical benefits, dental care, life insurance and certain compensated absences) related to employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method prorated on service and management's best estimates of investment yields, salary escalation and other factors. Pension plan assets are valued at fair value for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are amortized over the remaining average service life of active employees. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service period of active employees.

(k) Stock-based compensation plans

Stock options without attached stock appreciation rights granted after January 1, 2002 are accounted for under the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with a corresponding credit to contributed surplus. Stock options granted prior to January 1, 2002 continue to be accounted for using the intrinsic value method which does not give rise to compensation expense.

Stock options with attached stock appreciation rights give the holder the right to elect to either receive cash in an amount equal to the excess of the quoted market price over the option price or to receive a common share by making a cash payment equal to the option price. For stock options with stock appreciation rights and other awards to be settled in cash, compensation expense is calculated as the amount by which the quoted market price exceeds the option price with ongoing re-measurement of the outstanding liability. If the holder elects to purchase common shares, the liability is credited to contributed surplus.

(l) Earnings per common share

Earnings per common share is calculated on the basis of net income for the year, less preferred dividends, divided by the monthly weighted average number of common shares outstanding during the year.

Diluted earnings per common share reflect the assumed conversion of all dilutive securities using the treasury stock method. Under the treasury stock method the exercise of options is assumed to be at the beginning of the period (or at the time of issuance, if later). The proceeds from the assumed exercise of options are used to purchase common shares at the average price during the period. The incremental number of common shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) is included in the denominator of the diluted earnings per share computation.

2. Accounting changes

(a) Impairment of long-lived assets

In December 2002, the CICA issued Handbook Section 3063, "Impairment of Long-Lived Assets." The Corporation early adopted these new recommendations on a prospective basis effective January 1, 2002. The most significant change under the new recommendations is to require that impairment losses on long-lived assets or asset groups be measured as the amount by which the carrying value of the assets or asset groups exceeds their fair value.

An assessment of the impairment of QCM's long-lived assets was required as a result of the implementation of a new mining plan at the end of 2002 and changes to certain key assumptions (see Note 5 – Investment in QCM). The long-lived asset group affected consists of fixed assets and other capital assets which include preproduction, development and stripping expenditures.

The fair value of the asset group was determined using the discounted cash flow method, including a probability-weighted approach in considering the likelihood of possible outcomes. It also includes the estimated future cash flows directly associated with and expected to arise as a result of the use and disposition of the asset group. The fair value determined was then compared to the carrying value of the asset group in order to determine the amount of the impairment.

As a result of the recoverability test of the asset group, the Corporation recognized an impairment loss of $118.5 million in 2002 which has been allocated to the long-lived assets of the group based on the proportionate carrying amounts of the assets. Consequently, the carrying amounts of fixed assets and other assets were reduced by $89.7 million and $28.8 million respectively.

Previously, Canadian generally accepted accounting principles required that an asset impairment loss be measured as the amount by which the carrying amount of the asset groups exceeds the undiscounted future cash flows from the use of the asset groups. Under this approach, the asset impairment loss would have been lower than the $118.5 million loss recorded. However, in light of the impending restructuring of QCM as discussed in Note 5, the Corporation would have been required to record an additional impairment loss relating to the carrying value of its investment in QCM. The combination of the losses related to the asset impairment and the additional investment impairment would have resulted in a total impairment loss of a similar amount to that recorded, as described in Note 5.

(b) Blast furnace relines

Effective October 1, 2002, the Corporation adopted a change in its method of accounting for the cost of relining blast furnaces. The method was changed to more appropriately reflect the capital nature of reline costs in light of recent technological advancements that have significantly extended the useful life of blast furnace linings. Under the new method, costs incurred during a reline that extends the useful life of the blast furnace are capitalized and depreciated over its estimated useful lives, with all other costs being expensed as incurred.

Previously, the estimated future costs of the relines were accrued in advance on a straight-line basis over the period to the next anticipated reline. The actual costs of relines were then charged against the accumulated provision as incurred.

This accounting change has been applied retroactively and, accordingly, the consolidated financial statements for the prior periods have been restated. The impact of this change on significant balances as at December 31, 2001 is presented in the table below.

(in millions)		Increase (Decrease)
Fixed assets	$	14.4
Current liabilities	$	(1.8)
Long-term liabilities	$	(56.9)
Future income tax liabilities	$	22.8
Opening retained earnings	$	36.7

For the years ended December 31, 2001 and December 31, 2002 consolidated net income increased by $13.6 million ($0.18 per share) and $6.9 million ($0.09 per share) respectively as a result of this change.

(c) Stock-based compensation and other stock-based payments

Effective January 1, 2002, the Corporation adopted the new recommendations of the CICA with respect to the recognition, measurement and disclosure of stock-based compensation and other stock-based payments at fair value.

Stock options without attached stock appreciation rights, granted after January 1, 2002, are accounted for under the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period. Stock options granted prior to January 1, 2002 continue to be accounted for using the intrinsic value method which does not give rise to compensation expense. The effect of the change was a decrease in net income of $0.8 million ($0.01 per share) for the year ended December 31, 2002.

For stock options with attached stock appreciation rights and other awards to be settled in cash, compensation expense is calculated as the amount by which the quoted market price exceeds the option price with ongoing re-measurement of the outstanding liability. This change was adopted on a retroactive basis without restatement of prior periods. As a result of this change, retained earnings at January 1, 2002 decreased by $3.5 million, accounts payable increased by $5.2 million and future income tax assets increased by $1.7 million to recognize the liability for stock appreciation rights owing on January 1, 2002. Previously, compensation expense was recognized when the Corporation made cash payments to holders upon exercise of their stock appreciation rights. The effect of the change was a reduction in net income of $1.4 million ($0.02 per share) for the year ended December 31, 2002.

(d) Goodwill

Effective January 1, 2002, the Corporation adopted the new recommendations of the CICA with respect to the measurement of goodwill and other intangible assets. Under the new standard, goodwill and intangible assets with indefinite useful lives are no longer amortized but are subject to an annual impairment review.

The Corporation has determined that the existing goodwill in the amount of $6.3 million is not impaired. The non-amortization of goodwill increased net income by $0.7 million ($0.01 per share) for the year.

(e) Foreign currency translation
Effective January 1, 2002, the Corporation retroactively adopted the new recommendations of the CICA with respect to the recognition, measurement and disclosure of foreign currency exchange gains and losses. The recommendation requires separate disclosure of exchange gains and losses on the income statement and the elimination of deferral and amortization of unrealized gains and losses on foreign currency denominated non-current monetary assets and liabilities, except to the extent that they meet specified criteria for hedge accounting.

This accounting change had no significant impact on net income. However, a foreign exchange gain of $0.4 million in 2001 has been reclassified from cost of sales for comparative purposes.

3. Inventories

(in millions)	2002	2001
Raw materials and other inventories	**$ 354.7**	$ 346.9
Semi-finished and finished steel products	**579.8**	501.6
	$ 934.5	$ 848.5

4. Fixed assets

(in millions)	2002 Cost	2002 Accumulated Depreciation	2001 Cost	2001 Accumulated Depreciation
Land	**$ 46.8**	**$ —**	$ 46.8	$ —
Buildings	**764.8**	**472.6**	743.7	420.8
Equipment and machinery	**4,655.7**	**3,300.4**	4,457.9	2,995.7
Construction in progress	**64.5**	**—**	152.4	—
	$ 5,531.8	**$ 3,773.0**	$ 5,400.8	$ 3,416.5
Net book value		**$ 1,758.8**		$ 1,984.3

The estimated amount required to complete authorized capital projects is $578.4 million at December 31, 2002. The majority of these expenditures will be incurred in the next two years.

5. Investment in QCM

In December 2002, the Corporation and CAEMI of Brazil, each 50% shareholders of QCM, reached an Agreement in Principle with third parties to undertake a significant capital restructuring of QCM. This restructuring is designed to fund the further development of the mine and allow QCM to execute a multi-year mining plan. The agreement, which is still being negotiated, will be subject to various conditions, including appropriate arrangements being made with QCM's lenders and other stakeholders.

It is anticipated that the finalized agreement will provide for contributions of new capital to QCM by third parties that will significantly reduce the Corporation's ownership position in QCM. The Corporation is continuing to proportionately consolidate the results of QCM until the agreement is finalized.

As a result, the Corporation has recorded its proportionate share of the loss on impairment of QCM's long-lived assets (described in Note 2) and the related future income taxes. The Corporation also wrote off the deferred expenses and the related future income tax liability relating to QCM's pension plans. Upon review of these amounts in light of the significant losses in recent years, the impending capital restructuring and the impairment of long-lived assets, the Corporation determined that it is no longer appropriate to defer these pension expenses.

The chart below details the impact of the above adjustments on the separate components of the consolidated statement of income:

(in millions except per share amounts)	Increase (Decrease)
Cost of sales	
Write-off deferred pension expense	$ 25.0
Impairment of long-lived assets (capital tax)	(0.7)
	$ 24.3
Impairment of long-lived assets	$ 118.5
Income tax expense (recovery)	
Write-off deferred pension expense (future income tax)	$ (10.0)
Impairment of long-lived assets (future income tax)	(19.2)
	$ (29.2)
Net income	$ (113.6)
Earnings per share	$ (1.51)

The carrying value of the Corporation's investment in QCM at December 31, 2002, after the above adjustments, is $35 million. The Corporation also has letters of credit outstanding in support of QCM's credit facility and equipment leases totalling $32 million. The amount, if any, of a further reduction in the carrying value of the Corporation's investment upon completion of the restructuring or if QCM is unable to continue as a going concern, is not determinable at the present time.

6. Other assets

(in millions)	2002	2001
Pre-production, development and stripping expenditures	**$ 19.4**	$ 50.2
Accrued pension benefit	**38.3**	55.2
Investments	**11.0**	12.9
Goodwill	**6.3**	6.3
Other	**13.4**	15.7
	$ 88.4	$ 140.3

7. Joint ventures

The Corporation has a 50% interest (except Wabush Mines – 29%; 2001 – 24%) in the following operations:

Baycoat (partnership) – a steel coil coating operation

DNN Galvanizing Limited Partnership – a galvanizing operation

Gallatin Steel Company (partnership) – a minimill thin slab casting facility

Quebec Cartier Mining Company – an iron ore mining operation

Sorevco and Company, Limited (partnership) – a galvanizing operation

Wabush Mines – an iron ore mining operation

The Corporation's proportionate share of the major components of its joint ventures is summarized below (before eliminations and including related income taxes):

(in millions)		2002		2001
Balance sheets				
Working capital	**$**	**7.0**	$	29.7
Fixed and other assets		**410.7**		583.9
Future income tax assets		**44.7**		45.1
		462.4		658.7
Long-term liabilities		**116.1**		149.8
Future income tax liabilities		**6.7**		47.4
		122.8		197.2
Net investment	**$**	**339.6**	$	461.5
Statements of income				
Revenues	**$**	**725.4**	$	567.0
Expenses		**(682.4)**		(608.4)
Impairment of QCM's long-lived assets		**(118.5)**		—
Net income	**$**	**(75.5)**	$	(41.4)
Statements of cash flows				
Cash derived from (used for):				
Operations	**$**	**103.7**	$	17.4
Investment activities	**$**	**(21.9)**	$	(10.2)
Financing activities	**$**	**(32.1)**	$	7.6
Effect of exchange rate changes on cash	**$**	**(6.5)**	$	(0.9)

8. Long-term debt

(in millions)		2002		2001
Dofasco				
Medium-term notes				
– 7.5% maturing 2005	**$**	**175.0**	$	175.0
– 7.55% maturing 2008		**125.0**		125.0
Notes – 9.95% maturing 2003		**47.8**		79.7
– 9.81% maturing 2007		**175.0**		210.0
		522.8		589.7
DoSol Galva Limited Partnership				
Notes – variable rates maturing 2004		**17.0**		25.0
Joint ventures (proportionate share)				
QCM – LIBOR, currently at 7.0%, maturing 2004, denominated in U.S. funds		**45.0**		53.6
DNN – 6.4% maturing 2008		**48.5**		56.5
Other		**11.3**		11.4
		104.8		121.5
Total long-term debt at December 31		**644.6**		736.2
Less current requirements		**145.4**		93.0
	$	**499.2**	$	643.2

Requirements for repayment of long-term debt within the next five years are as follows:

(in millions)		
2003	$	145.4
2004	$	53.9
2005	$	219.1
2006	$	43.9
2007	$	43.6

The fair values of the Corporation's long-term debt, based on current rates for debt with similar terms and maturities, are not materially different from their carrying values.

Dofasco has credit facilities comprised of a $100 million one-year revolving line expiring November 30, 2003 and a $150 million three-year revolving line expiring December 31, 2005. At any time during its term, Dofasco may request that the one-year facility be extended to its maximum term of one year. On any of its anniversaries, Dofasco may request that the three-year facility be extended for an additional year. As of December 31, 2002, Dofasco has not drawn on these operating lines.

(a) DoSol Galva Limited Partnership
The long-term debt of DoSol Galva is guaranteed by its minority shareholder and is non-recourse to Dofasco.

(b) Joint ventures
Certain assets of some of our joint ventures have been pledged as collateral for their respective loans, all of which are non-recourse to Dofasco except for a guarantee provided on the DNN debt and $32 million in letters of credit in support of QCM's credit facility and equipment leases.

At December 31, 2002, the joint ventures had lines of credit with a maximum availability of $113 million bearing interest at rates between prime and prime plus 1% of which $60 million was available.

At December 31, 2002, QCM was in breach of certain of the financial covenants of its long-term debt agreements. As per the debt agreements, the lenders may now request payment upon demand. Consequently, the bank term loan of $45 million has been reclassified as a current liability on the consolidated balance sheet.

9. Capital stock

(a) Preferred shares

Authorized – preferred shares issuable in series:

Class A preferred shares	500,000
Class B preferred shares	unlimited
Class C preferred shares	unlimited

Issued less redeemed at December 31:

	Shares (in thousands)			(in millions)		
	2002	2001		2002		2001
Class A preferred shares $4^{3}/_{4}$% cumulative redeemable preferred shares, series A	**116**	119	**$**	**11.6**	$	11.9

Class A preferred shares
Under the share provisions, the Corporation is to establish in each year an account equal to 2% of the amount paid up on all series A preferred shares outstanding in that year for the purchase of such

shares to the extent available in that year at prices up to the issue price of $100 plus costs of purchase. During 2002, 2,400 shares were purchased for cancellation for $0.3 million (2001 – 2,500 shares for $0.2 million). The preferred shares are redeemable at the option of the Corporation at a price of $101 per share plus accrued and unpaid dividends. The annual purchase requirement and redemption rights are suspended when dividends are in arrears.

(b) Common shares
Authorized – unlimited

Changes in the outstanding common shares during each of the past two years are summarized below:

	Shares (in thousands)	(in millions)
Outstanding at December 31, 2000	74,920	$ 792.7
Shares issued for cash under the employee stock option plans	35	0.8
Outstanding at December 31, 2001	**74,955**	**793.5**
Shares issued for cash under the employee stock option plans	**233**	**5.1**
Outstanding at December 31, 2002	**75,188**	**$ 798.6**

(c) Contributed surplus

(in millions)	2002	2001
Amortization of fair value of stock options	**$ 0.8**	$ —
Settlement of liability for stock options with attached stock appreciation rights where the holder elected to purchase shares	**1.9**	—
	$ 2.7	$ —

(d) Basic and diluted earnings per share
The reconciliation of the numerator and denominator for the calculation of basic and diluted earnings per share is as follows:

(in millions, except number of shares and per share amounts)	Years Ended Dec. 31, 2002	2001
Net income	**$ 122.8**	$ 40.3
Less: Preferred share dividends	**(0.6)**	(0.6)
Income available to common shareholders	**$ 122.2**	$ 39.7
Basic earnings per share		
Weighted average number of shares outstanding (000s)	**75,107**	74,944
Basic earnings per share	**$ 1.63**	$ 0.53
Diluted earnings per share		
Weighted average number of shares outstanding (000s)	**75,107**	74,944
Dilutive effect of stock options (000s)	**430**	105
Adjusted weighted average number of shares outstanding (000s)	**75,537**	75,049
Diluted earnings per share	**$ 1.62**	$ 0.53

For the year ended December 31, 2002 all options to purchase common shares were included in the computation of diluted earnings per share. In 2001, options to purchase 509,700 common shares were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average price of the common shares.

10. Stock-based compensation plans
At December 31, 2002, the Corporation has four stock-based compensation plans, which are described below. The Corporation accounts for its grants under those plans in accordance with the fair value based method of accounting for stock-based compensation. The compensation charge recognized for these awards for the year ended December 31, 2002 was an expense of $9.1 million.

(a) Stock options without attached stock appreciation rights
The Corporation is authorized to grant common share stock options to certain executive officers and employees. The exercise price of the options may not be less than the market value of the common shares on the date of the grant. Options vest equally on the first, second and third anniversary date of the grant and have a term not to exceed ten years.

On June 27, 2002 the Corporation granted 703,350 options to purchase common shares with an exercise price of $30.45 per share. The estimated fair value of these options of $6.54 per share has been determined using the widely used Black-Scholes model with the following assumptions:

Risk-free interest rate	5%
Expected time until exercise	5 years
Expected volatility in stock price	29%
Expected annual dividend yield	4.35%

The Black-Scholes model used by the Corporation to determine fair values was developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise. The Corporation's outstanding stock options have characteristics which are significantly different from those of traded options, and changes in any of the assumptions can materially affect the fair value estimate.

(b) Stock options with attached stock appreciation rights
Stock options granted prior to January 1, 2000 have attached stock appreciation rights. As at December 31, 2002 there were 1,069,200 of these options outstanding and exercisable, with exercise prices ranging from $14.75 to $25.95 per share, a weighted average exercise price of $23.11 per share and a weighted average remaining contractual life of 4.73 years.

A summary of the status of all of the Corporation's stock option compensation plans as of December 31, 2001 and 2002 and changes during the year is as follows:

	Options	Weighted Average Exercise Price
Balance outstanding at December 31, 2000	2,295,609	$ 23.20
Authorized	549,300	24.35
Exercised	(87,609)	21.71
Forfeited/expired	(20,000)	24.25
Balance outstanding at December 31, 2001	**2,737,300**	**23.47**
Authorized	**703,350**	**30.45**
Exercised	**(646,800)**	**22.25**
Balance outstanding at December 31, 2002	**2,793,850**	**$ 25.51**

The following table summarizes information on stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding at December 31, 2002	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Exercisable at December 31, 2002	Weighted Average Exercise Price
$14.75–$21.45	265,600	2.48	$ 20.86	265,600	$ 20.86
$23.85–$30.45	2,528,250	7.63	26.00	1,290,000	24.18
	2,793,850	7.14	$ 25.51	1,555,600	$ 23.61

(c) Long Term Incentive Plan

The Corporation is authorized to grant deferred share units (DSUs) to certain executive officers and employees under the Long Term Incentive Plan (LTIP). DSUs generally vest three years after the date of their award. Cash payouts, which are made only upon retirement, employment termination or death of the participant, are based on the number of DSUs held by the participant multiplied by the quoted market price of a common share at that time. On each dividend payment date, participants will receive a number of additional DSUs equivalent to the number of common shares that could have been acquired on that date by notional dividend reinvestment. At December 31, 2002, there were 108,141 DSUs outstanding, of which none had vested (December 31, 2001 – 37,249 outstanding).

(d) Directors' deferred share plan

The Corporation is authorized to grant deferred share units (DSUs), as an alternative to cash payments, to members of the Board of Directors which may be converted to cash or common shares only upon retirement from the board. On each dividend payment date, participants will receive a number of additional DSUs equivalent to the number of common shares that could have been acquired on that date by notional dividend reinvestment. At December 31, 2002, there were 6,151 DSUs outstanding (December 31, 2001 – 6,902).

11. Shareholder rights plan

On May 4, 2001, the shareholders of the Corporation approved a new shareholder rights plan (the "New Plan") which is a successor to similar plans which have been in place since 1989. One right (a "Right") was issued under the New Plan for each outstanding common share, and one Right will be issued in respect of each common share issued prior to the expiry of the New Plan. No consideration is payable by a shareholder upon issuance of the Rights. The New Plan will terminate at the close of the annual general meeting of shareholders in 2004, if not terminated earlier.

The New Plan is intended to ensure that, in the event of a bid for control of the Corporation, shareholders will receive full and fair value for their shares and will not be subject to abusive or coercive take-over strategies, and that the Board of Directors will have sufficient time to evaluate the bid, negotiate with the bidder, seek out alternative bidders and explore other ways of maximizing shareholder value.

Rights are not exercisable until certain events occur. If anyone (an "Acquiring Person") wishes to acquire 20% or more of the Corporation's voting shares, it may (i) negotiate terms which the Board of Directors of the Corporation approve as being fair to all shareholders or, alternatively (ii) without board approval, make a "permitted bid" which must contain provisions specified in the New Plan and be accepted by independent shareholders holding more than 50% of the then outstanding voting shares. If the Acquiring Person acquires 20% or more of the Corporation's voting shares other than as described above (subject to certain exceptions), the Rights will become exercisable, automatically allowing holders (other than the Acquiring Person) to purchase common shares at a 50% discount. The Board of Directors may, in certain circumstances, redeem the then outstanding Rights at a redemption price of $0.001 per Right.

12. Income taxes

The income tax expense is comprised of:

(in millions)	2002	2001
Current	**$ 134.3**	$ 61.5
Future	**(65.2)**	(28.4)
	$ 69.1	$ 33.1

The income tax expense differs from the amount calculated by applying Canadian income tax rates (federal and provincial) to income before income taxes, as follows:

(in millions)	2002	2001
Income before income taxes	**$ 199.3**	$ 73.7
Income tax expense computed using statutory income tax rates	**$ 82.9**	$ 31.6
Add (deduct):		
Manufacturing and processing credit	**(29.0)**	(12.8)
Increase (decrease) in valuation allowance: Domestic	**28.3**	—
Foreign	**(16.5)**	11.7
Mining duties	**(21.4)**	(1.4)
Resource allowance	**12.6**	0.5
Effect of different rates in foreign jurisdictions	**5.0**	4.2
Minimum taxes	**2.1**	4.5
Net future income tax benefit (expense) resulting from changes in tax rates	**0.5**	(10.1)
Other	**4.6**	4.9
	(13.8)	1.5
Income tax expense	**$ 69.1**	$ 33.1

Components of future income taxes by jurisdiction are summarized as follows:

(in millions)	2002	2001
Canada		
Current Assets:		
Accounting provisions not currently deductible for tax purposes	$ 11.4	$ 10.7
Inventory of production rolls	(7.3)	(7.4)
Future income tax assets	$ 4.1	$ 3.3
Liabilities:		
Tax depreciation in excess of book depreciation	$ 189.1	$ 255.5
Accounting provisions not currently deductible for tax purposes	(121.5)	(100.4)
Other	1.0	5.5
	68.6	160.6
Valuation allowance	28.3	—
Future income tax liabilities	$ 96.9	$ 160.6

Future income tax liabilities are net of QCM's future income tax assets of $28.3 million for which a valuation allowance has been provided.

(in millions)	2002	2001
Foreign		
Assets:		
Net operating loss carryforward	$ 129.1	$ 145.5
Tax depreciation in excess of book depreciation	(61.0)	(62.4)
Other	(5.5)	(3.2)
	62.6	79.9
Valuation allowance	(17.7)	(34.2)
Future income tax assets	$ 44.9	$ 45.7

Foreign net operating losses, for which a tax benefit has been recognized, expire between 2010 and 2021.

13. Employees' profit sharing on Hamilton steelmaking operations

The Corporation allocates 14% of its Hamilton steelmaking profits before income taxes, or a minimum payment of three times the contributions made by members, to the Dofasco Employees' Savings and Profit Sharing Funds and the Dofasco Employees' Deferred Profit Sharing Plan, to be shared among Hamilton steelmaking employees. A portion of the annual profit sharing allocation is funded through the creation of a defined contribution pension component within the Dofasco Supplementary Retirement Income Plan.

14. Employee future benefits

The Corporation has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to substantially all of the employees. Such plans include the Dofasco Employees' Savings and Profit Sharing Funds (Note 13).

The total expense for the Corporation's defined contribution plans was $3.6 million (2001 – $3.5 million). Total assets and obligations for these plans at December 31 amount to $835.7 million (2001 – $835.0 million).

The market value of plan assets invested in common shares of the Corporation was as follows:

(in millions)	2002	2001
Defined benefit plans	$ 6.4	$ 6.9
Defined contribution plans	$ 5.8	$ 6.2

The information about the Corporation's defined benefit plans, in aggregate, is as follows:

	Pensions		Other Benefit Plans	
	2002	2001	2002	2001
Change in benefit obligation				
Benefit obligation – beginning of year	$ 918.1	$ 832.2	$ 411.1	$ 384.4
Increased ownership interest in joint venture	7.2	—	1.2	—
Current service cost (employer)	45.8	28.1	8.1	7.7
Interest cost	61.3	55.6	29.1	26.0
Plan amendments	8.3	13.8	—	5.6
Benefits paid	(47.5)	(45.9)	(15.5)	(13.2)
Actuarial (gain) loss	(10.6)	34.3	29.3	0.6
Other	0.9	—	—	—
Benefit obligation – end of year	$ 983.5	$ 918.1	$ 463.3	$ 411.1
Change in plan assets				
Market value of plan assets – beginning of year	$ 1,032.7	$ 1,055.1	$ 0.8	$ 0.8
Increased ownership interest in joint venture	7.0	—	0.2	—
Actual return on plan assets	28.4	19.5	—	—
Employer contributions	11.8	4.5	15.1	13.2
Benefits paid	(47.5)	(45.9)	(15.5)	(13.2)
Actual plan expenses	(0.5)	(0.5)	—	—
Market value of plan assets – end of year	$ 1,031.9	$ 1,032.7	$ 0.6	$ 0.8
Reconciliation of funded status				
Funded status – surplus (deficit)	$ 48.4	$ 114.6	$ (462.7)	$ (410.3)
Employer contributions after measurement date	1.3	1.4	3.7	3.0
Unamortized transitional asset	(214.1)	(203.8)	—	—
Unamortized past service costs	28.6	22.4	5.7	6.4
Unamortized net actuarial loss	159.6	120.6	69.0	40.0
Accrued benefit asset (liability)	$ 23.8	$ 55.2	$ (384.3)	$ (360.9)

The net accrued benefit asset (liability) is reflected in the Consolidated Balance Sheets as follows:

	Pensions		Other Benefit Plans	
	2002	2001	2002	2001
Other assets	$ 38.3	$ 55.2	$ —	$ —
Accounts payable and accrued charges	—	—	(19.9)	(16.6)
Employee future benefits	(14.5)	—	(364.4)	(344.3)
Total	$ 23.8	$ 55.2	$ (384.3)	$ (360.9)

Included in the above accrued benefit obligation and fair value of plan assets are the following amounts in respect of plans that are not fully funded:

	Pensions		Other Benefit Plans	
	2002	2001	2002	2001
Benefit obligation	$ 279.4	$ 252.7	$ 463.3	$ 411.1
Market value of plan assets	177.2	159.3	0.6	0.8
Funded status – deficit	$ 102.2	$ 93.4	$ 462.7	$ 410.3

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows (weighted average assumptions as of September 30):

	Pensions		Other Benefit Plans	
	2002	2001	2002	2001
Discount rate	6.75%	7.00%	6.75%	7.00%
Expected long-term rate of return on plan assets	8.00%	8.00%	—	—
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

For measurement purposes, a 4.0% to 8.8% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2002 (2001 – 4.25% to 8.3%).

The Corporation's net benefit plan expense is as follows:

	Pensions		Other Benefit Plans	
	2002	2001	2002	2001
Components of defined benefit plan expense				
Current service cost	$ 45.8	$ 28.1	$ 8.2	$ 7.7
Interest cost	61.3	55.6	29.1	26.0
Expected return on plan assets	(78.4)	(80.0)	(0.1)	(0.1)
Amortization of transitional asset*	10.3	(14.2)	—	—
Amortization of past service costs	2.1	1.9	0.7	0.1
Amortization of net actuarial loss	0.9	0.4	0.4	(1.1)
Other	0.9	—	—	—
	$ 42.9	$ (8.2)	$ 38.3	$ 32.6

* The 2002 amount included $25.0 million write-off of deferred pension expenses (see Note 5).

15. Financial instruments

The Corporation utilizes financial instruments to manage the risk associated with fluctuations in interest rates, foreign exchange rates and commodity prices.

The Corporation has entered into foreign exchange contracts with an aggregate amount of U.S. $50.0 million as at December 31, 2002 (2001 – U.S. $58.0 million). These contracts mature at the latest on December 22, 2003 at exchange rates varying between Cdn. $1.5293 and Cdn. $1.6166.

Commodity price swap contracts are used to hedge the cost of certain raw materials. As at December 31, 2002, the aggregate notional amount of all contracts outstanding was U.S. $7.6 million (2001 – U.S. $18.5 million) expiring at various dates through to December 31, 2003.

There was no significant unrealized gain or loss on these financial instruments as at December 31, 2002. The Corporation believes that its exposure to credit and market risks for these instruments is negligible given its policy not to hold or issue derivative financial instruments for trading or speculative purposes.

16. Currency translation adjustment

Unrealized currency translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's self-sustaining foreign operations, resulted in an unrealized currency translation loss of $2.1 million for the year ended December 31, 2002. The unrealized loss resulted primarily from the strengthening of the Canadian dollar against the U.S. dollar during the year.

17. Segmented information

The Corporation has three reportable segments as follows:

Steel Operations – includes Hamilton operations, Dofasco USA, Powerlasers, DoSol Galva, Dofasco de Mexico, Dofasco Marion and Dofasco's share of Baycoat, DNN, Sorevco and Wabush which are primarily engaged in flat rolled steel production and sales

Gallatin Steel – joint venture minimill in the U.S. which produces and sells hot rolled steel

Quebec Cartier Mining (QCM) – iron ore production and sales

Inter-segment sales are recorded at market value.

(in millions)					2002
	Steel Operations	Gallatin	QCM	Intercompany Elimination	Consolidated Total
Sales to external customers	**$ 3,138.7**	**$ 306.3**	**$ 138.7**	**$ —**	**$ 3,583.7**
Inter-segment sales	**—**	**27.9**	**102.9**	**(130.8)**	**—**
Total sales	**3,138.7**	**334.2**	**241.6**	**(130.8)**	**3,583.7**
Gross income (loss)	**585.7**	**71.5**	**(15.1)**	**5.1**	**647.2**
Depreciation and amortization	**220.2**	**24.7**	**29.9**	**—**	**274.8**
Impairment of long-lived assets	**—**	**—**	**118.5**	**—**	**118.5**
Interest on long-term debt	**53.8**	**0.3**	**3.3**	**—**	**57.4**
Interest and other income	**(6.3)**	**—**	**(0.6)**	**—**	**(6.9)**
Foreign exchange loss (gain)	**4.2**	**(0.1)**	**—**	**—**	**4.1**
Income (loss) before income taxes	**313.8**	**46.6**	**(166.2)**	**5.1**	**199.3**
Segment assets	**3,091.1**	**323.7**	**178.3**	**(8.0)**	**3,585.1**
Expenditures for fixed assets	**122.0**	**9.4**	**7.6**	**—**	**139.0**

(in millions)					2001
	Steel Operations	Gallatin	QCM	Intercompany Elimination	Consolidated Total
Sales to external customers	$ 2,646.0	$ 215.9	$ 100.6	$ —	$ 2,962.5
Inter-segment sales	—	19.3	98.5	(117.8)	—
Total sales	2,646.0	235.2	199.1	(117.8)	2,962.5
Gross income (loss)	380.0	(5.7)	7.3	—	381.6
Depreciation and amortization	202.4	23.6	28.7	—	254.7
Interest on long-term debt	54.8	0.3	4.2	—	59.3
Interest and other income	(4.7)	—	(1.0)	—	(5.7)
Foreign exchange loss (gain)	(0.5)	(0.1)	0.2	—	(0.4)
Income (loss) before income taxes	128.0	(29.5)	(24.8)	—	73.7
Segment assets	2,852.5	332.5	340.4	(1.3)	3,524.1
Expenditures for fixed assets	186.9	4.2	12.8	—	203.9

Geographic information

(in millions)	2002		2001	
	Sales	**Fixed Assets**	Sales	Fixed Assets
Canada	**$ 2,464.9**	**$ 1,439.7**	$ 2,237.2	$ 1,676.4
United States	**882.3**	**263.0**	521.5	253.8
Other countries	**236.5**	**56.1**	203.8	54.1
Total	**$ 3,583.7**	**$ 1,758.8**	$ 2,962.5	$ 1,984.3

Customer segments

Sales are attributed to countries based on the location of the customer, and fixed assets are based on the country in which they are located.

There were no customers that accounted for 10% or more of consolidated revenue in 2002 or 2001.

18. Comparative figures

Certain other comparative amounts have been reclassified to conform to the current year's presentation.

auditors' report

To the Shareholders of Dofasco Inc.

We have audited the consolidated balance sheets of Dofasco Inc. as at December 31, 2002 and 2001 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Dofasco Inc. as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
CHARTERED ACCOUNTANTS
MISSISSAUGA, CANADA
FEBRUARY 6, 2003

management's responsibility for financial reporting

The accompanying financial statements of Dofasco Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those methods deemed most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the financial information presented throughout the annual report is consistent with the financial statements.

Dofasco Inc. maintains systems of internal accounting and administrative controls which are of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the board, and all of its members are outside directors. The Committee meets periodically with management, as well as with internal and external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee has reported its findings to the board which has approved the financial statements for issuance to the shareholders. The Committee also considers, for review by the board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited on behalf of the shareholders by the external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.

W Bilenki

Walter W. Bilenki
VICE PRESIDENT – FINANCE
FEBRUARY 6, 2003

John Mayberry

John T. Mayberry
CHAIR OF THE BOARD AND CHIEF EXECUTIVE OFFICER

	2002	2001[4]	2000
Statement of income data[1]			
Sales	$ **3,583.7**	2,962.5	3,201.1
Cost of sales (before the following item)	$ **2,885.8**	2,562.3	2,601.8
Employees' profit sharing	$ **50.7**	18.6	38.8
Gross income	$ **647.2**	381.6	560.5
Depreciation and amortization	$ **274.8**	254.7	254.1
Impairment of long-lived assets	$ **118.5**	—	—
Operating income	$ **253.9**	126.9	306.4
Interest on long-term debt	$ **57.4**	59.3	61.7
Interest and other income	$ **(6.9)**	(5.7)	(15.9)
Foreign exchange loss (gain)[5]	$ **4.1**	(0.4)	—
Income (loss) before unusual items and income taxes	$ **199.3**	73.7	260.6
Unusual items	$ **—**	—	—
Income tax expense (recovery)	$ **69.1**	33.1	78.2
Minority interest	$ **7.4**	0.3	(6.3)
Income (loss) from equity investments	$ **—**	—	—
Net income (loss) for the year	$ **122.8**	40.3	188.7
Net income (loss) attributable to common shares[3]	$ **122.2**	39.7	188.1
Financial position data[1]			
Current assets	$ **1,693.0**	1,353.8	1,355.0
Fixed assets – land, buildings and equipment, at cost	$ **5,531.8**	5,400.8	5,184.7
– accumulated depreciation	$ **3,773.0**	3,416.5	3,181.1
Other assets	$ **133.3**	186.0	165.0
Total assets	$ **3,585.1**	3,524.1	3,523.6
Current liabilities	$ **650.7**	473.2	512.1
Long-term liabilities	$ **896.9**	1,000.1	968.3
Future income tax liabilities	$ **96.9**	160.6	170.3
Minority interest	$ **29.7**	22.3	20.4
Shareholders' equity	$ **1,910.9**	1,867.9	1,852.5
Statistical data			
Raw steel production and purchased semi-finished steel processed (thousands of net tons)	**5,470**	4,955	5,009
Steel shipments (thousands of net tons)	**4,827**	4,375	4,416
Earnings (loss) per common share[3]	$ **1.63**	0.53	2.47
Net income – percent of sales[3]	**3.4%**	1.3%	5.9%
Net income after adding back interest on long-term debt (after taxes) – percent of average capital[2]	**6.3%**	3.1%	9.2%
Net income – percent of average common shareholders' equity[3]	**6.5%**	2.1%	10.3%
Net book value per common share	$ **25.26**	24.76	24.56
Dividends declared – per common share	$ **1.08**	1.08	1.06
– per Class A preferred share	$ **4.75**	4.75	4.75
– per Class C, $2.60 preferred share	$ **—**	—	—
Earnings reinvested in (withdrawn from) the business[1]	$ **41.1**	(41.2)	52.1
Capital expenditures[1]	$ **139.0**	203.9	216.0
Total dividends declared[1] – preferred	$ **0.6**	0.6	0.6
– common	$ **81.1**	80.9	80.6
Average number of common shares outstanding (thousands)	**75,107**	74,944	76,293

1 in millions
2 capital = shareholders' equity plus long-term debt (including current portion)
3 after preferred dividends
4 restated to reflect changes in accounting related to blast furnace relines
5 reclassified on a prospective basis as of 2001 to comply with CICA recommendations
6 restated to reflect changes in accounting related to income taxes and post-employment benefits.

For 1994 and subsequent years, Dofasco has reported its 50% interest in the Quebec Cartier Mining Company using the proportionate consolidation method.

1999	1998[6]	1997	1996	1995	1994	1993	1992
3,142.3	2,982.2	3,070.4	2,942.0	2,635.9	2,424.8	2,102.9	1,952.9
2,426.0	2,359.6	2,439.9	2,317.0	2,047.1	1,936.2	1,778.2	1,737.0
53.3	38.1	34.2	40.8	45.7	23.6	7.1	8.3
663.0	584.5	596.3	584.2	543.1	465.0	317.6	207.6
256.0	248.3	252.7	228.2	207.8	211.1	179.8	166.8
—	—	—	—	—	—	—	—
407.0	336.2	343.6	356.0	335.3	253.9	137.8	40.8
60.8	69.8	75.8	79.3	86.0	88.0	89.2	90.8
(10.2)	(20.0)	(25.9)	(26.8)	(40.1)	(28.3)	(17.3)	(11.8)
—	—	—	—	—	—	—	—
356.4	286.4	293.7	303.5	289.4	194.2	65.9	(38.2)
31.8	—	—	—	—	67.0	74.8	(323.9)
133.3	112.5	100.5	96.2	93.6	40.3	(2.7)	(165.5)
(5.9)	(0.3)	—	—	—	—	—	—
—	—	—	—	—	—	(4.8)	(10.5)
260.8	174.2	193.2	207.3	195.8	220.9	138.6	(207.1)
260.2	173.6	181.7	181.2	169.4	194.2	111.9	(233.8)

1,362.2	1,246.3	1,372.1	1,511.5	1,599.7	1,533.0	1,158.1	1,111.2
4,947.1	4,786.0	4,568.5	4,585.4	4,352.5	4,139.1	3,685.2	3,870.9
2,960.3	2,731.8	2,534.3	2,387.8	2,218.1	2,029.0	1,768.5	1,867.1
133.8	118.2	69.6	65.4	65.9	69.3	132.3	139.6
3,482.8	3,418.7	3,475.9	3,774.5	3,800.0	3,712.4	3,207.1	3,254.6
585.7	459.4	554.1	474.4	546.1	411.9	295.3	381.6
854.1	911.8	849.7	1,013.9	1,025.6	1,136.7	1,062.0	1,110.2
208.9	227.8	316.8	316.0	353.9	399.4	367.2	393.8
21.6	22.7	—	—	—	—	—	—
1,812.5	1,797.0	1,755.3	1,970.2	1,874.4	1,764.4	1,482.6	1,369.0

4,833	4,794	4,621	4,274	3,746	3,507	3,884	4,089
4,449	4,056	4,131	3,985	3,181	3,076	3,350	3,419
3.16	2.02	2.12	2.12	1.98	2.33	1.41	(2.96)
8.3%	5.8%	5.9%	6.2%	6.4%	8.0%	5.3%	N/A
12.2%	8.7%	9.0%	9.4%	9.3%	10.8%	8.4%	N/A
14.5%	9.8%	10.7%	11.4%	11.4%	15.1%	10.3%	N/A
22.90	20.97	20.27	19.16	18.00	16.80	14.39	12.98
1.00	1.00	1.00	0.85	0.80	0.30	—	0.15
4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
—	—	1.11	2.60	2.60	2.60	2.60	2.60
83.3	80.7	95.9	95.7	97.9	168.8	111.9	(245.6)
186.0	265.7	119.6	293.7	230.1	192.8	89.8	106.9
0.6	0.6	11.5	26.1	26.4	26.7	26.7	26.7
82.2	85.7	85.8	72.7	68.4	25.4	—	11.8
82,296	85,748	85,799	85,615	85,525	83,433	79,394	79,084

Dofasco's Board of Directors seeks to maximize shareholder value and to govern company activities in a way that promotes Dofasco's long-term best interests. These objectives are pursued in a way that is consistent with good corporate citizenship, including fair treatment of employees, customers, suppliers and host communities.

Board mandate
Dofasco's formal board mandate includes:

- Adopting a strategic planning process for the company;
- Approving corporate objectives and the operating and financial plans to achieve them;
- Evaluating the performance of the company and its senior management;
- Approving the company's annual financial statements and verifying the integrity of internal financial, control and management information systems;
- Verifying the identification and management of the principal risks to the company's business;
- Selecting the Chief Executive Officer, approving the selection of other senior executives and monitoring senior management succession; and
- Approving a policy for the company's communications with shareholders and other stakeholders.

Corporate governance practices
Dofasco's comprehensive corporate governance guidelines and policies, designed to facilitate the board's representation of shareholders' interests, are reviewed regularly, evaluated and modified to address the changing needs of the company and the changing expectations of the investment community. Copies of "Dofasco Board Guidelines on Corporate Governance Issues" are available upon request, or on the Dofasco website at www.dofasco.ca.

Like most major Canadian corporations, Dofasco uses the corporate governance guidelines advocated by The Toronto Stock Exchange (TSX) as a compliance template. A detailed discussion of Dofasco's compliance in 2002 with TSX guidelines is included in the company's 2003 Management Proxy Circular.

In 2002, the TSX proposed a number of revisions to its corporate governance requirements. While these changes have not yet been adopted, Dofasco already substantially complies with them and intends to continue to do so.

Composition of the board
The TSX recommends that boards be constituted with a majority of individuals who are "unrelated" to the company. An unrelated director is defined as:

- Not a company manager and free from any interest or relationship that could reasonably be perceived to interfere with the director's ability to act in the best interests of the company;
- Not currently, nor within the last three years, an officer or employee of a material service provider to the company or its subsidiaries; and
- Not a director, officer, employee or significant shareholder of a firm that has a material business relationship with the company.

Through the Nominating and Corporate Governance Committee, Dofasco's board annually reviews its size and composition in order to maintain an appropriate mix of expertise and experience to support Dofasco's strategic direction and operating needs.

Dofasco's Articles of Incorporation provide that the board consist of between 8 and 15 directors. In 2002, 11 of Dofasco's 13 directors were unrelated. John Mayberry, Chair of the Board and Chief Executive Officer, and Don Pether, President and Chief Operating Officer, were the only related directors. Average attendance at board meetings by directors in 2002 was 94%.

Board committees
There are four committees of Dofasco's board: Audit; Environment, Health and Safety; Human Resources; and Nominating and Corporate Governance. This structure may change from time to time depending on which of its responsibilities the board feels can best be fulfilled through detailed review of matters in committee. Whenever a committee is established, it operates according to a board-approved written mandate outlining its duties and responsibilities.

Dofasco periodically rotates committee chairs and membership to balance the need for new ideas with continuity of functional expertise. The Nominating and Corporate Governance Committee annually proposes the chair and membership of each committee to the board. All unrelated directors participate on at least one committee.

The composition, mandates and activities of the committees during 2002 are set out in the Management Proxy Circular. Average attendance at committee meetings by directors in 2002 was 86%.

Performance evaluation
Dofasco's board continually evaluates its own performance and that of board committees by soliciting input from every director, as well as from senior managers who regularly attend board meetings. In addition, directors' contributions to the overall functioning of the board are assessed individually every year, either through self-evaluation questionnaires or private discussions with the Chair of the Board, in order to identify improvement opportunities.

Compensation of directors
The Nominating and Corporate Governance Committee regularly reviews directors' compensation, in light of the practices of comparable Canadian public companies and the time commitment expected of Dofasco's directors. Dofasco's Management Proxy Circular details directors' compensation, including board and committee retainers and meeting fees. Dofasco encourages directors to own company shares and requires all non-employee directors to allocate at least 25% of their annual retainer fees to the purchase of Dofasco shares.

Directors

John E. Akitt [2]
Corporate Director
and Consultant
Bonita Springs, Florida

Sylvia D. Chrominska [1,3]
Executive Vice-President,
Human Resources
The Bank of Nova Scotia
Toronto, Ontario

Eleanor R. Clitheroe [2,3]
Chancellor
University of
Western Ontario
London, Ontario

William E. Coyne [2]
Corporate Director
Naples, Florida

Roger G. Doe [3,4]
Corporate Director
Port Perry, Ontario

William A. Etherington [1,2]
Corporate Director
Toronto, Ontario

Richard L. George [3,4]
President and
Chief Executive Officer
Suncor Energy Inc.
Calgary, Alberta

Dezsö J. Horváth [1,2]
Dean & Tanna H. Schulich
Chair in
Strategic Management
Schulich School of Business
York University
Toronto, Ontario

Frank H. Logan [1,4]
Corporate Director
Toronto, Ontario

Brian F. MacNeill [1,2,3,4]
Chairman
Petro-Canada
Calgary, Alberta

Peter C. Maurice [1,4]
Corporate Director
London, Ontario

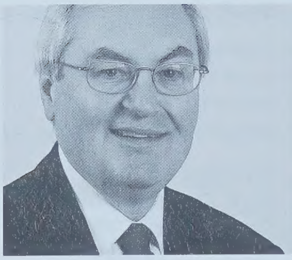
John T. Mayberry
Chair of the Board and
Chief Executive Officer
Dofasco Inc.
Hamilton, Ontario

Donald A. Pether
President and
Chief Operating Officer
Dofasco Inc.
Hamilton, Ontario

1 Audit Committee
2 Environment, Health and Safety Committee
3 Human Resources Committee
4 Nominating and Corporate Governance Committee

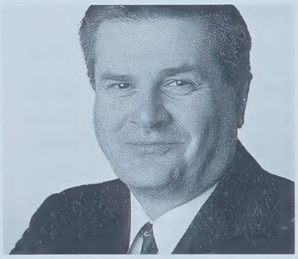
Officers

John T. Mayberry
Chair of the Board and
Chief Executive Officer



Donald A. Pether
President and
Chief Operating Officer

Bill P. Solski
Executive Vice President –
Finance
(Retired December 31, 2002)

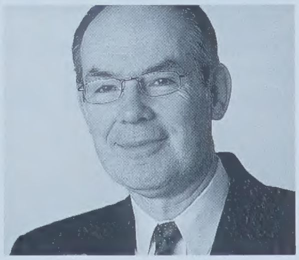


Walter W. Bilenki
Vice President –
Finance

Joan M. H. Weppler
Vice President –
Corporate Administration and
General Counsel

J. Norman Lockington
Vice President –
Technology

David S. Borsellino
Vice President –
Manufacturing



L. Allen Root
Vice President –
Commercial

Raymond P. d'Andrade
Treasurer

Urmas Soomet
Secretary and
Director, Legal Services

Robert W. Nuttall
Comptroller

ownership interests and products

Subsidiaries			
Dofasco USA Inc.	Southfield, Michigan	100%	Storage and processing of steel and by-products
Dofasco de Mexico S.A. de C.V.	Monterrey, Mexico	100%	Tube mill and steel processing facility
Dofasco Marion Inc.	Marion, Ohio	100%	Tube mills and steel processing facility
Powerlasers	Kitchener and Concord, Ontario; Pioneer, Ohio	100%	Laser-welded automotive blanks and related components
Mining and related ventures			
Quebec Cartier Mining Company	Fermont and Port Cartier, Quebec	50%	Iron ore pellets and concentrates
Wabush Mines	Wabush, Newfoundland; Pointe Noire, Quebec	28.6%	Iron ore pellets
Joint ventures			
Baycoat	Hamilton, Ontario	50%	Prepainted flat rolled steels
DNN Galvanizing Limited Partnership	Windsor, Ontario	50%	Hot dip galvanized flat rolled steels
DoSol Galva Limited Partnership	Hamilton, Ontario	80%	Hot dip galvanized flat rolled steels
Gallatin Steel Company	Gallatin County, Kentucky	50%	Hot rolled steels
Sorevco and Company Limited	Coteau-du-Lac, Quebec	50%	Hot dip galvanized flat rolled steels

stock market information

Common shares

Year	High [1]	Low [1]	Shares Traded
2002	**$ 33.10**	**$ 25.80**	**71,134,027**
2001	$ 27.35	$ 20.00	54,814,758
2000	$ 30.60	$ 19.05	64,471,944
1999	$ 29.50	$ 17.75	67,927,146
1998	$ 26.65	$ 15.25	63,561,777

[1] Based on board lots traded

Valuation day prices

December 22, 1971:
Common – $25.00
(after giving effect to the 3:1 stock split in 1984, $8.33)
4¾% Class A Preferred – $74.00

Closing price on February 22, 1994:
Common – $24.125
4¾% Class A Preferred – $64.00

Stock exchange listings

Common shares
Stock Symbol: DFS
CUSIP No. 256900-70-5
Listed: The Toronto Stock Exchange

Preferred shares
4¾% Cumulative Redeemable Preferred Shares, Series A
Stock Symbol: DFS.PR.A
CUSIP No. 256900-30-9
Listed: The Toronto Stock Exchange

Corporate Headquarters
Dofasco Inc.
1330 Burlington Street East
Hamilton, Ontario L8N 3J5
Canada

Annual Meeting
The Annual Meeting of Shareholders will be held on **Friday, May 2, 2003.** The meeting will take place at the du Maurier Ltd. Centre, 190 King William Street, Hamilton, Ontario, at 12:00 noon.

Stock Transfer Agent and Registrars
CIBC Mellon Trust Company
Toronto, Montreal, Vancouver, Calgary

The Bank of Nova Scotia Trust Company
New York, New York

For more information concerning share ownership or dividends, please contact:

CIBC Mellon Trust Company
320 Bay Street
P.O. Box 1
Toronto, Ontario M5H 4A6
Answerline: (416) 643-5500
Toll Free: 1-800-387-0825
E-mail: inquiries@cibcmellon.ca

Dividend Reinvestment and Share Purchase Plan
Dofasco's Dividend Reinvestment and Share Purchase Plan allows Canadian residents who are registered shareholders of Dofasco common and preferred shares to purchase additional common shares by reinvesting their cash dividends, and to invest up to $50,000 each fiscal year to purchase additional Dofasco common shares at market value.

Qualified shareholders interested in participating in the Dividend Reinvestment and Share Purchase Plan should complete and mail an authorization form to:

CIBC Mellon Trust Company
Dividend Reinvestment Department
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9

Authorization forms are available from the Transfer Agent, from Dofasco's Corporate Secretary and from the Investors section of the Dofasco website at www.dofasco.ca.

Electronic Delivery and Electronic Voting
Dofasco shareholders may elect to receive Dofasco corporate documents (such as Quarterly and Annual Reports, and the Management Proxy Circular) in electronic form on the Internet rather than in paper copy through the mail.

Shareholders may also choose to send proxy voting instructions on the Internet rather than voting by telephone, facsimile, or mail.

To take advantage of these convenient services, registered shareholders should contact the Transfer Agent. Beneficial shareholders should contact the broker or financial intermediary that manages the investment account within which the Dofasco shares are held.

Inquiries
The Corporate Secretary
Dofasco Inc.
P.O. Box 2460
1330 Burlington St. East
Hamilton, Ontario L8N 3J5
(905) 544-3761
1-800-DOFASCO
corpsec@dofasco.ca
www.dofasco.ca

Version française du rapport
On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétaire de la Société.

Our Annual Report is printed on 55% recycled paper with a minimum specification of 10% post-consumer content and is 100% recyclable.

90 YEARS DOFASCO SINCE 1912

Member of Dow Jones Sustainability Indexes 03

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www.dofasco.ca

at home in the world